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STATE OF THE FARM ECONOMY

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BEFORE THE

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HOUSE OF REPRESENTATIVES
NINETY-SEVENTH CONGRESS
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[1] Resigned from Congress Aug. 25, 1982.
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STATE OF THE FARM ECONOMY

TUESDAY, SEPTEMBER 28, 1982

House of Representatives,
Committee on Agriculture,
Washington, D.C.

The committee met, pursuant to notice, at 10:05 a.m., in room 1301, Longworth House Office Building, Hon. E de la Garza (chairman of the committee) presiding.

Present: Representatives Jones of Tennessee, Brown, Rose, Bedell, English, Panetta, Huckaby, Glickman, Stenholm, Volkmer, Dorgan, Albosta, Findley, Hagedorn, Marlenee, Hopkins, Hansen, Roberts of Kansas, Napier, Skeen, Evans, and Chappie.

Also present: Robert M. Bor, chief counsel; Robert T. Lowerre, associate counsel; John E. Hogan, minority counsel; Peggy L. Pecore, clerk; Steven McCoy, Bernard Brenner, Christine D. Abram, Stephen T. Adams, Robert A. Cashdollar, and Richard Fritz.

OPENING REMARKS OF HON. E de la GARZA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

The Chairman. The committee will be in order.

We meet this morning to listen to our friends from the Department of Agriculture and the Federal Reserve Board, and other independent groups who relate to economics in the farm economy.

I am trying to get a few more members, Mr. Lesher, but apparently there must be a meeting at the White House, or something. [Laughter.]

The important thing about the hearing this morning is that it comes at a time when all of the available sources of media information impress us with the fact that the farm income is the lowest, as they say, accounting for inflation, since the Great Depression.

All of the agencies that deal with farm credit impress us with the difficulty they are having in dealing with the customers in securing needed funds, either from the private market or from the Government.

I just had a visit from Federal land bank credit people. They feel they are having problems in securing from the private market funds unrelated to you, but other pending legislation having to do with regulatory reform that is causing an uncertainty in the marketplace.

Along with the state of the economy, there was one bill introduced by Mr. Simon and myself, H.R. 6177, that I know you will direct some attention to, Dr. Lesher, in that there was great concern, justifiable or not, rightly or wrongly, that the administration or the Department of Agriculture was not timely issuing information, notwithstanding the fact that everyone knows that sometimes they are just guesses from the available information which you have. That is one of the things that we would like to visit with you about, as to how and to what extent you rely on your own bank judgment or on programs that you formulate that could be of assistance to the farmers.

And, with that, I would ask Dr. Lesher, if you would join us at the witness table. If Mr. Ahalt is going to assist you, we will be very happy to hear from you too at this time.

STATEMENT OF WILLIAM G. LESHER, ASSISTANT SECRETARY FOR ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY J. DAWSON AHALT

Mr. **Lesher**. Thank you, Mr. Chairman.

Perhaps I could submit the written testimony for the record and briefly summarize my remarks.

The **Chairman**. Without objection, your full statement will appear in the record, and then you can present your testimony as you see advisable.

Mr. **Lesher**. Thank you, Mr. Chairman.

While I understand that this hearing, Mr. Chairman, may get into other issues besides the one bill, H.R. 6177, that deals with the reporting of net farm income, my testimony deals exclusively with that issue. After I summarize my remarks, Mr. Chairman, I will answer any questions you or other members of the committee may have.

Let me, if I could, review the reporting of net farm income. I think it is important to discuss historically what the policies have been in reporting net farm income and what we have today, and then what, in fact, the bill H.R. 6177 would do.

In the past, Mr. Chairman, the Department, through various administrations, has not had a formal policy or a written policy of when they were going to report net farm income.

Often it has been reported in the outlook conference in November, usually the November before the year for which you are making the forecasts for net farm income. In other years it was not released until sometime later.

So, what I decided to do, as the Assistant Secretary of Economics and the person responsible for net farm income statistics, was to establish a policy. In fact, to state in writing what the Department was going to do year after year in reporting of net farm income.

The Department's policy is that after the August crop report, and after we have finished truing up the current year's net farm income estimate, we would make a forecast for the following year. This is exactly what we have done in 1982.

We publicized that policy in the April issue of the Agricultural Outlook. In the September Agricultural Outlook we published our 1982 net farm income estimate.

That is what we propose to continue to do year after year.

I think this is good for everyone, because it is a policy that provides a rigid schedule, everyone expects it, and it is the earliest possible time that we can make a forecast that has any accuracy.

H.R. 6177 would require us to start forecasting net farm income for 1983 before we have a good preliminary estimate for 1981 or 1982. It would require us to start in October of this year and continue to do that on a monthly basis. We have never done that in the past on a monthly basis.

I am concerned, Mr. Chairman, when I took this job, I took the responsibility for the analysis and the statistics that the Department of Agriculture puts out. They must be the best possible. You and I, on past occasions, Mr. Chairman, have had discussions about the concern you and others have had about the accuracy of USDA numbers, about the possibility that, in fact, in some way, shape, or form they are not the most accurate and most reliable.

I share your concern, Mr. Chairman, and I think that this is one of the reasons why we moved to the reporting system that we have outlined.

There are really three reasons why I do not think that the enactment of H.R. 6177 would be good policy.

One is that the net farm income statistic is an aggregate number.

This is no secret. People from past administrations, both Republican and Democratic, and Congress have questioned what you really can tell by net farm income estimates.

It is an aggregate estimate. It really does not give you any geographic or commodity specifics, and it just does not tell a very good picture. There are so many things that affect the well-being of American farmers.

Their farm incomes are certainly part of the picture, but there are many other factors, and you just cannot come up with a single measure that really gives you a complete picture you can believe.

The second reason, Mr. Chairman, is that the sensitivity of the number—if you underestimate the gross receipts by 2 percent and overestimate the cost by 2 percent, you could have an error in net farm income of 30 percent.

That is a rather large error, and it is one that you cannot avoid because, when you make net farm income estimates, over a year in advance, you have to estimate what the weather is going to be; you have to know the economic and political developments in the international markets that we depend on for the sale of one-third of what we produce; the exchange rates, the value of the dollar, interest rates, the whole series of things really affect what, in fact, is going to happen. If you misjudge what corn prices are going to be by 10 cents, you miss net farm income by $400 million. If you underestimate or overestimate the price of cattle by $1, you are talking about a half-billion-dollar difference.

If you miss the interest rate by 1 percentage point on all debt outstanding in the farm economy, you are talking about a change of $2 billion one way or the other.

These are some of the wide fluctuations that you can get when you estimate net farm income so far in advance.

The truth of the matter is, Mr. Chairman, right now we have made a forecast for the 1982 net farm income. It was roughly $19 billion.

That is a forecast, not an estimate, and a forecast in which you assume certain things are going to happen in the future and make an estimate based on that. When we make an estimate it is relative to something that has already happened, and you can sample statistically to give the best number possible.

The 1982 net farm income forecast will not even be an estimate until July of 1983. The reason is, on the expense side, we will not know how much farmers spent in the production of agricultural commodities until we get the results of the June production costs survey the following year.

At that time, we true up the 1982 forecast, and it becomes an estimate. The following month we will make a forecast on the 1983 net farm income.

The third reason, Mr. Chairman, relates to the usefulness of the information. I would make early estimates of net farm income as H.R. 6177 requires, if I, in fact, thought that individual farmers needed them or were seeking them.

I come from a small farm in Indiana, 300 acres. I don't believe my dad ever said to me, I am really concerned about what the net farm income is going to be for the following year.

What he is concerned about is what kind of prices he is going to get next year for his crops. What he is concerned about is the availability of inputs, the cost of those inputs. What he is not concerned about is what the aggregate net farm income estimate is going to be for the following year.

And I am sincere that if I really felt that farmers wanted it, and it would serve a good purpose for farmers, I would do it tomorrow; but I just don't believe that is the case. I don't think it is of use to farmers. Let's face it, we all come with certain biases. I have a bias. I am biased toward producers and no one else. If we can do things to help producers, we are going to break our backs to do them. If we are not helping producers we should devote the limited resources we have to other things that are more productive, and that is really my view.

I will say again—I don't think farmers expect us to forecast net farm income well in advance. You go out and ask the farmer today—how much income are you going to make this year? He won't tell you. He will say it depends on what he sells his crops for. He is not sure yet what his corn yields are going to be. He can't tell you.

I don't think farmers expect us to aggregate over 2.4 million producers to come up with a number that is reasonable or reliable and really gives an accurate picture. I think that is the botton line in this issue. The USDA is a great Department; it has a great tradition; and, in fact, when USDA puts a stamp on a number, it should be the best possible one, and I think we need to protect the integrity of these numbers. In the last 2 or 3 years, Mr. Chairman, you know we got into a real fiasco about numbers during the farm bill and the budget process. Numbers flew this way and flew that way, and pretty soon everyone wondered whose number could you trust.

I believe that the Department of Agriculture should make them as reliable as possible, based on fact. Our numbers must stand the test of time, and this will be a service to farmers, and the Congress, and everyone else, if we maintain that posture over time.

With that, Mr. Chairman, I will end. I will be glad to answer any questions you or other members of the committee may have.

[The prepared statement of Mr. Lesher appears at the conclusion of the hearing.]

The CHAIRMAN. Thank you very much, Dr. Lesher.

Do you have a time problem this morning?

Mr. LESHER. No, I do not. Perhaps I should say yes, but I do not. I will stay as long as you wish, Mr. Chairman.

The CHAIRMAN. We don't have too many members. Perhaps we can do the questioning. I had intended to listen to all of the witnesses and then have them as a panel, but I think we can readily accommodate the members that are here, and so that you may return to your numbers and figures, we will do the questioning now.

Mr. Stenholm?

Mr. STENHOLM. Thank you, Mr. Chairman.

Dr. Lesher, I don't find a great deal of fault or question in regard to the logic of the argument that you just made in regard to the difficulty of ascertaining what income projections 6 months or 12 months, or into the future, may or may not be.

You did acknowledge, though, the real problem that we all have is the fact that even though farmers may not be that interested in net farm income, they are interested in what the prices of wheat and corn and cattle and hogs are going to be?

Mr. LESHER. Yes, sir.

Mr. STENHOLM. That happens to translate into net farm income.

I am a little, I guess, puzzled that we don't recognize that what the price of wheat is going to be is going to affect net farm income, and, as we get into the debate on the budget every year, it seems that the numbers end up being interpolated into the budget and policy decisions.

I guess I don't quite follow the difficulty of, or maybe I do follow the difficulty of, projecting the net farm income figures, but do you have a suggestion of how we might better deal with the budgetary process if, in fact, we do not take into consideration what the results of those policy decisions are going to be in regard to net farm income?

Mr. LESHER. Mr. Stenholm, I wish I had an answer to a way you could solve the budgetary problem. You don't know what the revenues are going to be, and I mean it can change $30 billion overnight. It is a serious problem.

What I am suggesting is that the net farm income estimate will not help the problem that you have.

You recall when we were hassling about the farm bill, I came up and said, we thought that for this year the CCC program may cost $1.8 billion. That is what our analysts thought; that is what we really thought. Now, as you know, due to the bumper crops, world economic conditions, et cetera—the costs are now $12 billion.

I am not sure that a net farm income estimate is really going to solve that issue.

I would add that the current policy in writing is that every September, after the August crop report which is the first good report we have on production of corn and feed grains, we would make a net farm income estimate. We do provide in the national income and product accounts quarter-by-quarter estimates.

For example, the first quarter of 1983 would be released next April. We do provide some data to the Department of Commerce, and it is published. If you need a quarterly estimate by, say, April 1983, you could look at the national income and product accounts and find it.

The quarterly measures get aggregated into a whole series of numbers for the economy in general. And, while we do contribute to this overall economic assessment, I hesitate for the USDA to come out and put its stamp of approval on a quarterly number that has a potential error that can be very large. I think that we need to keep the analysts in the Department and our numbers as accurate as possible to maintain the best reputation.

Mr. STENHOLM. I guess the point I am trying to make now is hindsight is always 20-20. We look back at policy decisions that we were attempting to make in the budget this year. You and others from the administration were pretty much in opposition to the things many of us on this committee felt needed to be done, and I guess maybe our crystal ball was a little better than what you thought it was, or the logical argument that you now make against it. You can't predict it. In hindsight it now looks like we are doing some of the things, set-asides, et cetera, recognizing that we do have some problems with net farm income.

You look at return on equity to agriculture, and we know the figures very well—less than 1 percent in 1982; 1 percent return on equity for farmers.

Does the ratio of total farm debt to farm income this year at over 13-to-1, as compared to less than 3-to-1 in 1973, bother you now with income projections?

Mr. LESHER. Well, Congressman, I think that anyone who is interested in agriculture, as you are and as I am, has to be concerned.

The August crop report indicated a record corn crop and we have tried to take some steps that you have encouraged us to take over the course of this year—the paid diversions along with the set-asides, and that sort of thing, to help the situation.

And I agree—it is a problem.

Mr. STENHOLM. Thank you, Mr. Chairman.

The CHAIRMAN. The Chair regrets to announce to the members that we are going to limit the questions to Dr. Lesher to those members who were here when he testified; otherwise, we will never get to the other witnesses. We will have the other witnesses as a panel and ask Dr. Lesher to remain.

Mr. Dorgan?

Mr. DORGAN. Thank you, Mr. Chairman.

Just a couple of questions. I noticed in your statement you talked about the decrease in the number of farms in America over a period of years, and that, if you were to decide the number, decide the net farm income by the number of farms, you would come up with a different approach to analyzing what net farm income means versus what it meant in the thirties.

I sense that if one does that, it leads you to the same kind of conclusion that the Secretary of Agriculture was led to when in North

Dakota he said things are not as bad on the family farm as some have been led to believe.

Are you making the case, as the Secretary seems to make the case, that things are not as bad as people would believe in the agricultural sector?

Mr. LESHER. No, the case I am trying to make is that you can take any issue, Congressman, and there are certain people that are going to misinterprete the statistics. There are people who say that net farm income is the lowest since the 1930's and, therefore, the implicit follow-on is, in fact, that our farmers are in as bad a shape today as they were in the 1930's. I don't think that the facts bear that out.

On the other hand, the statistics do indicate that it is not as rosy as what we would like. Farm prices are just too low right now, and are pinching farmers severely.

Mr. DORGAN. Would you agree that there has been substantial constraints of farmland ownership patterns in the country since the 1930's?

Mr. LESHER. Certainly the farms have gotten fewer and larger. In the thirties, you had about 6½ million farmers, and now you have about 2½ million.

Mr. DORGAN. No, no. What I am trying to say is that unless you give some demonstration of the distribution of the income to use the averages you are using here to debunk the notion that income comparison between the thirties and the 1980's lacks validity, unless you give some distribution comparison——

Mr. LESHER. Well, we can provide some facts for the record, but, in general terms, you have a small number of our farms producing a large amount of the product, and they receive most of the net farm income. Most of their income comes from the farm roughly 90 percent of it.

In other words, they do not have much off-farm income. The bulk of the farmers that are smaller, and produce less of the product, have off-farm income and when you add the off-farm income with their small farm income, it brings them up very close to the farm income of the larger farmer.

Mr. DORGAN. The point that I am trying to make is that you are suggesting that net farm income in 1981, broken down by unit, comes up to the fourth highest net farm income ever, and that would suggest something positive, when, in fact, if you take a look at the deterioration of the balance sheet of family farms in America, you see something substantially negative.

The other point I wanted to raise; you talked about the forecasts being generally useless to family farms.

Mr. LESHER. Yes, the net farm income forecasts are not useful to family farms.

Mr. DORGAN. And why do you believe that? I agree with you, first of all, that the farmers are not sitting on the farm wondering on a Wednesday whether Thursday's net farm income forecast for the following year is going to come out. It seems to me that the farmers collectively and individually need the best information they can about the days and months and years ahead. If General Mills has the information through their research organization, and the farmers can't expect all of the best information from the USDA, they are put at a disadvantage.

Mr. LESHER. I know where you are going and it is a good point that you are raising. I think you are absolutely correct. That is the reason we have a large outlook program—to make sure that the farmers of America know what the supply and demand situation for the future holds. What kind of price ranges, what the outlook is—and that is very important. If not, the farmer would not be on equal footing, with the other people in the industry.

However, it is the net farm income statistic that bothers me. We are trying to beef up our outlook program by providing more outlook on the commodity situations to the farmers.

Mr. DORGAN. I understand your point that you made on this net farm income. Let me point out that what Mr. Stenholm said, I think is important. You folks do the best job you can in giving us your estimate of what the future will be, but the fact is many of us last year were skeptical; next year, we should plant as much as we want, exports will take care of it, when that was discovered to be in error. We will have a 15-percent base voluntary; we predicted failure there.

I think Mr. Stenholm's comment was very important. The question is, what about the skeptics in this committee that said the program would not work? It has not worked.

Mr. LESHER. We are all interested in the same thing, and that is to help farmers increase their income through higher prices. I don't think any of us will disagree with that goal. You try to make your decisions, and you have got to make them ahead of time. All of a sudden, you experience with a corn crop, like the one we got hit with, and all of the decisions you thought were pretty decent 6 months ago now look like they are not very good at all.

And we realize the situation has shifted toward excess supplies. We have tried to work with this committee and you have urged us to do things. We have done some things on our own, advancing deficiency and diversion payments.

You are talking about paid diversions now in addition to the acreage set-aside programs, and, you know, we are trying to work with you to get the situation under control, but it is a tough one.

The CHAIRMAN. Mr. Glickman?

Mr. GLICKMAN. Thank you, Dr. Lesher. I guess the problem that some of us have is that there is a perception that in a period of very weak commodity prices, the Department is trying to hide something by reducing the number of times per year that it indicates its projections of farm income and other relevant statistics.

As I understand it, up until now, the Department has released estimates of net farm income in their Agricultural Outlook. This may have occurred monthly or may have occurred twice, four or five times a year, but that estimate occurred at periodical intervals for several years.

As I understand it you are proposing perhaps a twice-a-year release or disclosure of farm income, one, I understand, in your November Outlook, and one would be in the August crop report.

You made the statement earlier, "If I really felt farmers wanted it,"—I assume by that, you mean disclosure of net farm income—

"we would give it to them as frequently as they want it." I am paraphrasing on your statement. My question: Do farmers not want it, and is that why you are reducing the amount of times that they would be getting the information?

What I am concerned about is, are farmers telling you that the information the Department has been giving them over the last several years is irrelevant and not important, and is that why you are making the change, because they do not like the way you are releasing the information?

Mr. LESHER. Well, you talk to some farmers, and some would prefer that we did not put out any reports at all. I don't think that the bulk of the farmers share that view, though, and I don't think that would be the best interest of farmers in the long run.

Going back to the points Mr. Dorgan made about farmers having as much information as others may have. But, honestly, I am a stickler for numbers being the best-possible numbers, and I do not think it serves agriculture, American farmers, or the Congress, to put out a net farm income estimate that is subject to such gross error.

We do outlook work where there is a great amount of potential error due to changing market conditions. But these changing market conditions are something that farmers can look at and assess for themselves. But what use can they make of a net farm income estimate if they have no capability for assessing the impact market shifts may have on it.

Mr. GLICKMAN. Let me ask you this question.

Are you, in fact, getting significant and proper input from farmers, themselves, about the way you are going to report or disclose net farm income? You have given me in the abstract that farmers don't like the reports, or they don't trust the reports. I am not sure that is totally true. But you are making, I believe, a fundamental change here, and I want to be sure that you are getting the appropriate amount of input from either private forecasters or farm groups, or farmers, themselves.

What I have heard from people is that USDA is doing this on their own, they are not really bringing other points of view into their decisionmaking process; and I want to quash that.

Mr. LESHER. I think we are an open Department, and I don't think I ever turned down a meeting with a private forecaster or anyone else that wanted to discuss this issue. I don't feel that it is accurate to assert that the Department is a closed shop and we are trying to hide something.

In the past, there has never been a written policy of when you are going to do net farm income forecasting. In some years, there is not a forecast until after the year. What I am saying is that we should take the perceived politics and other factors out of the whole thing.

We have put down in writing what we want to do every year that people can count on. It is a number that will be reliable, and I think that that has been beneficial for everyone.

Mr. GLICKMAN. Let me switch subjects for 1 minute.

I want to talk to you for 1 minute about the 1983 wheat crop and corn programs and the fact that you made some changes in the corn program. Given that the markets for wheat and corn are both plagued by large and growing stocks and low prices—on what basis did the administration decide to offer a 10-percent paid acreage diversion on feed grains, but retained the 5-percent paid diversion for wheat?

My figures indicate that the relative stock situation is worse for wheat than it is for corn; I don't begrudge the fact that you increased the paid diversion for feed grains; I want to know why you did not do it for wheat?

Mr. **Lesher**. Well, as you know, there have been some groups such as the wheat growers who came out and said that they were mad because of the feed grain announcement.

While I do not agree with them, I am not critical of them either. They are frustrated, as I am, as you are, about the situation and low prices.

We are trying to do the best for farmers in our decisions on wheat and corn. There is no bias toward wheat or toward corn. In a relevant sense, the situation for corn is worse than it is for wheat.

As you look at the world stocks, it is clear that the burden is greater for coarse grains than wheat. When you look at the export demand for wheat versus feed grains, et cetera, it is a tougher situation for corn than it is for wheat right now. Corn exports are declining from a year ago and wheat exports are increasing. But, beyond that, what you try to do is to put forward programs that will get a large amount of participation.

You do not try to offer them too little to keep them out, nor do you try to go too far by asking for too large an acreage reduction, such as 25 or 30 percent. You could look at the carryover, and you could justify a 40 percent in most of the grains. But to offer a program like that, farmers would not comply without adequate compensation. All of a sudden, you have lost the effectiveness of your program because farmers won't set aside that much without large payments.

So, you try to structure programs in the wheat and in corn that is going to get you at least 40 or 50 percent participation, so you can get the acreage out.

Using the 5-percent paid diversion for wheat and 10 percent for corn and the diversion payment rates, it looks like wheat may be getting the short end of the stick. However, when you look at the total compensation including deficiency payments—there is a much bigger spread between the wheat target of $4.30 per bushel and the wheat loan rate of $3.65 versus the corn target of $2.86, versus the loan rate of $2.65—then it looks pretty good for wheat. We have got to get some corn ground out, and we did not know any way to do it but to go the extra 5-percent paid diversion. We hope we can get 50 percent participation in wheat. I think we can; I think we may get over that, and we hope we can get 50 percent in the feed grains. We have to get the stocks down utilizing these programs.

Mr. **Glickman**. Thank you.

The **Chairman**. Mr. Findley?

Mr. **Findley**. Dr. Lesher, do you have any horseback guess as to how much better off an individual farmer's income would be this year if he had stayed in the feed grains program against one who had stayed out?

Mr. **Lesher**. I don't have that with me right now.

Mr. **Findley**. If you would put it in the record.

Mr. **Lesher**. Yes, sir. We can supply information for you and put it in the record.

Mr. **Findley**. Do you have any estimates on pent-up demand for farm machinery in the agricultural sector?

My hunch is that there are a number of farmers who want to buy a tractor or some other item but have put it off because of interest rates and loan farm product prices.

Do you have any statistics on this pent-up demand?

Mr. **Lesher**. To my knowledge we do not. When you are trying to estimate pent-up demand, it is very difficult.

Mr. **Findley**. Like putting your finger on a watermelon seed?

Mr. **Lesher**. Yes, sir, there is no way you can estimate that. I am sure if the prices were better, there would be farmers purchasing more machinery. I don't doubt that. I don't know how much, though.

Mr. **Findley**. Would you agree with the comment that I have heard over the years that if we want more accurate forecasts on production and farm income, and all that, the Department can get greater accuracy by investing more money in the survey, itself? In other words, a larger sampling?

Mr. **Lesher**. In any statistical procedure, the larger sample you take of a given population, the better the reliability is going to be. That increased accuracy comes at a cost. As you do more sampling, it costs more money.

Mr. **Findley**. That is the point I was trying to make. I have before me H.R. 6177, that my friend and colleague from Illinois introduced, Mr. Simon, which calls for monthly estimates. At some point, if you have estimates of the cost of getting those estimates, I think it would be well to put them in the record. If you have such that would be helpful to us as we examine H.R. 6177.

Mr. **Lesher**. Right. I don't want you to misinterpret this, though. A forecast is something based on some assumptions about the future. Weather: no amount of money poured into a program is going to give much more reliability about the weather.

Mr. **Findley**. I understand that.

Mr. **Lesher**. However, if something has already happened, like in the last quarter, and then you take a sample, a larger sample, it would give you more accurate results.

Mr. **Findley**. Dr. Lesher, do you have any guess at the present time as to how many farmers will be affected by the $50,000 payment limit this year and next year?

Mr. **Lesher**. I don't have that with me.

Mr. **Findley**. If you could put that in the record, I would appreciate it.

Mr. **Lesher**. Yes, sir.

[The Department submitted the following:]

Program Participant vs Non-Participant

		Non-Participant	Participant (10% ARP) Using Loan Program	Participant (10% ARP) Using Reserve Program
Acres		100	90	90
Yield/Ac.	×	114.2	114.5	114.5
Bushels	=	11,420	10,305	10,305
Value ($/bu.)	×	2.40 (Projected price)	2.55 (Loan rate)	2.90 (Reserve loan ra
Return ($)	=	27,408	26,278	29,885
Plus Program Payment ($)		-	1,289	1,289
Equals Gross Return ($)		27,408	27,567	31,174
Acres		100	90	90
Variable Cost ($/ac.)	×	160	160	160
Cost of Production	=	16,000	14,400	14,400
Cover Crop		-	250	250
Cost of Production		$16,000	$14,650	$14,650
Gross Returns		$27,408	$27,567	$31,174
Less Cost of Production		$16,000	$14,650	$14,650
Net Return ($)		$11,408	$12,917	$16,524
Returns to Participant over Non-Participant			$1,509	$5,116

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Producers Affected by the Payment Limitation

We do not have information available that would enable reliable estimates of the number of farmers that will be affected by the payment limitation for 1982 and 1983. The precise number will be affected by the size of unit, crop combination, program yields, acreage planted for harvest, program participation, payment rates and number of producers per unit. Nevertheless, information at hand indicate that a relatively small number will be affected.

For 1981, with all producers eligible, less than 8 percent of the total payments were withheld because of payment limitation which involved less than 1 percent of the producers.

For 1982, a relatively low program participation will reduce the number of eligible producers, however, program payments tend to be higher. It is projected that less than 3 percent of all producers will be affected by the payment limitation.

Program participation for 1983 is expected to be considerably better than 1982—and escalating targets will probably reflect in a larger deficiency payment rate for most commodities. In addition, program participants will be eligible for both deficiency and diversion payments. It is projected that less than 5 percent of the producers will be limited by the payment limitation. The greatest impact will be rice producers where it is projected that about one-fifth of the producers may be affected.

The most complete information on this subject was collected for the 1978 crop program year. These data were collected to fulfill a mandate of the Food and Agriculture Act of 1977. These data indicate that of 739,000 (about one-third of all farms), only 1,184 of them (0.16 percent) were affected by the payment limitation. Nearly one-half of these producers were in the Plains region; almost one-third in the Northwest; and about one-sixth in the North Central region.

Mr. **Findley**. Dr. Lesher, the big concern I have today is the prospect for a subtantial increase in Government holdings of grain. When I first came to Congress, the Government was the biggest merchandiser of grain in the world. It stayed that way for quite a while, and I can see some signs we are getting back into that dreadful circumstance.

I am afraid that even a program such as we have in prospect for next year, a 20-percent set-aside and paid diversion, will have a somewhat limited effect on reducing production. We are going to get the hillsides and creek bottoms as the least productive land.

During the sixties, I came up with an idea that was never acted upon by the Department, but I think still that made some sense, and I would like to have you consider it. I proposed that we have a fire sale sort of arrangement under which farmers who wanted to participate would set their entire production unit out for the year; they would not get paid cash by the Government for taking their land out; their operating unit out of production. They would get their benefit by having the opportunity to buy Government grain at a cut-rate price, say, 50 or 40 percent, or whatever would be necessary to get their cooperation. This would reduce production very substantially, much more than 20 percent diversion could ever do.

It would also reduce the Government holdings of grain, and it would give the farmer grain to work with for whatever purpose he normally would use the grain.

So, I just ask you to give some thought to that, because I think we are heading into a crisis of Government holdings of grain.

Would you agree on that last comment?

Mr. **Lesher**. Well, Mr. Findley, I am not sure I would want to categorize it as a crisis, but we have had 2 years back to back of good weather and great production here in the United States and worldwide—except for Russia.

You never know what the next year or two will bring. Your crisis of today is a crisis of another sort tomorrow. What I would say is that you are right. You cannot be interested in agriculture and not be concerned about the size of stocks that we now have in wheat and corn and in other commodities. It is an issue that a lot of attention has to be paid to in the near future.

I agree with you.

Mr. **Findley**. Thank you.

The **Chairman**. Mr. Bedell?

Mr. **Bedell**. Thank you, Mr. Chairman.

Mr. Lesher, do you plan to continue to make forecasts within the Department of what you expect market prices to be in future years on various farm commodities such as corn and wheat?

Mr. **Lesher**. Yes. We are going to continue our total outlook program and, as a matter of fact, we are going to move to strengthen it.

Mr. **Bedell**. Will they be made public?

Mr. **Lesher**. They already are.

Mr. **Bedell**. Let me tell you first of all, I appreciate very much what you have done in regard to the program for next year as it affects our people. I have to tell you I am very disturbed that we put all the blame on the weather.

The fact is that you made those reports prior to the passage of our last farm bill, prior to the meeting of the conference committee. I was the one who dug from those reports the fact that you projected, yourselves, that income for wheat and feed grains, just for corn and wheat, would be $9 billion lower over the period of the bill under the Senate bill than the House bill.

I participated not as a member of that conference committee, but I was over there a great deal in some of the meetings. It was very clear that was not a conference between the House and the Senate, Mr. Lesher; that was a conference between the House and OMB, the administration.

The Senate conferees would practically agree to something and come back the next day and say they could not do it.

It should have been clear from the figures you had that by passing the bad farm bill, which we passed, we were going to be in exactly the same situation that we are in today, at least in this gentleman's opinion, and for us to say we should blame the weather, I think is unfair to the American public and to this body.

The fact is that those are exactly the figures that were available. That is the stand the administration took; that is the way they fought; that is what we ended up with. And now you understand where we stand. That is why I think it is so important that those figures be made available. I think it is important that the total farm income be made available, because we certainly can make decisions much better in this body, and I think farmers can make decisions better, whether or not they put more fertilizer on or not and so on. I think it greatly depends on their estimate of what the price is going to be, and they are going to use your estimates to a degree.

I would just like to get that out; I think we better be aware of exactly what happened.

I appreciate your correcting your mistake. My people say it is a shame we did not have this program last year.

I guess I have talked more than I have asked questions. Unless you have something to say, I will yield back the balance of my time.

Mr. LESHER. I appreciate your frustration, Congressman. We share it in the Department. I assure you, though, that we really try the best we can to make the best decisions for farmers and all concerned, and I think we have tried to this year.

Sometimes we do not have the best information. You make decisions before you have critical reports that really give you a true picture of what is going on out there. I did not mean to infer that weather was the only factor.

You have many other factors. Since we now are in the international markets, there are many more variables that can impact what is going to happen to net farm income.

I would say that are making the Agricultural Food Act of 1981 work to the best that we know how, and that while people criticize us for having a bad farm bill, et cetera, we are spending about $12 billion a year for price supports.

We don't begrudge that. It is a tough situation out there. We are trying to use those outlays in a way to get money in the farmers' pocket and get them to reduce production.

Mr. BEDELL. If you had accepted the House bill, you would not be spending $12 billion, but the OMB just absolutely insisted—I think you succumbed to their insistence—that we had to pass a bad bill, which was the Senate bill, which ends up with these tremendous expenditures, tremendous surpluses, and low farm prices, and I don't think it is right to mislead the American people and try to tell them it is all the fault of the weatherman. It is not the fault of the weatherman. We passed a bad farm bill, and a lot of us voted against it. We did it because the administration absolutely insisted that we have the worst farm bill of all the choices we had. It is a fact; if you look through the record, if there is any question about it, that is the situation.

We only correct our mistakes by admitting them, and you have corrected them, and I appreciate the fact you have corrected them, but let's not fool people about what the realities were.

I yield back my time.

The CHAIRMAN. Thank you.

Mr. Skeen.

Mr. SKEEN. Thank you, Mr. Chairman.

Mr. Lesher, I think one of the most significant statements made about farm income forecasting and all the other figures here, was that by my colleague, Mr. Stenholm, who asked the question, or who brought up the subject, of return on equity, and I think that whether you passed a good farm bill or a poor farm bill, what this body wound up doing was passing a farm bill that they could pass, because they wanted a policy, and now to come back and berate you who put together the figures, I think is a little past the point.

Maybe that helps with crystal balls, I don't know.

But the concern I have has always been what is the income picture compared with farm indebtedness, and over the last several years the big problem has been that we have collaterized our land value because it was the only appreciable commodity we had left in the agricultural industry. Our land values were going up; we could collateralize loans against that land value, and we have proceeded to do that to the point that we have such a low return on equity that this is one of the big problems we have in agriculture.

We have no market either domestically or in the foreign area. The return to the agriculturist is so small in comparison to what is made on the handling and processing and transporting of these products, that I would think if you are going to help anybody in agriculture today, it would be far more important to them to know how much farm indebtedness has increased, as opposed to income, or some other kind of indicator.

I know you folks do that kind of work in summarization after the year is over. Is there a way to give a better reflection on return on equity?

Mr. LESHER. What we can do, Congressman, is submit some information for the record that would give you the most up-to-date picture we have concerning indebtedness in net farm income.

I am not sure there is a way that we can have a better crystal ball that would give you better information earlier.

Mr. SKEEN. Maybe this is the wrong direction to go, but since most everything that happens around this place is perception—it is done for public consumption more than it is to correct the problem—I think it would be helpful to the general public to understand what the primary producer is up against in the way of the profit picture. There is little or none that has been done under Democrats, or Republicans, for the last 15 years.

Agriculture has slowly eaten itself into a larger debt position than at any time in our history. And to characterize how we are going to save the family farm, I think we are in big trouble if you are going to save the family farm, because it takes bigger and bigger units to make it, because you have to have a bigger and bigger loan base, and I again think that the more significant kinds of information and statistics that you get are those dealing with what kind of return we have on equity and what is the public perception about the returns made in agriculture.

They are so small, it would probably be the biggest scandal we will have. How in the world do these people stay in business on less than 1 percent? If you get a 1-percent return on equity, you are doing an awful good job in agriculture today. There is no other business I know of that you can engage in and stay in business for very long with those kinds of returns.

I yield back the rest of my time.

The CHAIRMAN. Mr. Albosta.

Mr. ALBOSTA. Doctor, there has been a lot of discussion today about what we should have done to prevent what I believe is a crisis in agriculture. You came very close to saying that it was but you didn't. I think we are in the situation right now where we don't have enough places to store our commodities this fall.

There is a panic situation in agriculture in my area right now and I think in other parts of the farm Midwest, with farmers trying to build some storage, and to fix up their barns in order to find anyplace at all where they can put these commodities that are coming on.

I guess what I am trying to say to you is that we need to do a better job of attempting to project what production is going to be. I don't think that there was any question in mind last June, for instance, when we had the crisis bill before this committee, that there was going to be a disaster in terms of production of agricultural commodities this fall, unless we experienced a major drought across the United States. There was no weather projections, long-term ones that said we would.

So I think what you are saying about some projection on income is going to cause a lot of farmers to go broke if they don't know that.

I think what we have to have from your Department is something that would say to them that there is a projection of better income forecasts for the future. In your estimates, nobody is going to say that I don't believe that you made a major mistake, if you can show in your estimates that weather went against you, or that the political situation in the world went against you, and somebody somewhere decided either not to buy our crops or the State Department had to make a political football out of agricultural commodities and place an embargo on the export, all of these things, you would not be able to project programs. Those political things you would not be able to project.

I really believe, and don't you, that you can come up with what it costs to grow a bushel of corn?

Mr. LESHER. Yes, you can take each individual farmer and go through his records and estimate how much it costs to grow a bushel of corn for that individual farmer.

Mr. ALBOSTA. Can't you then under normal circumstances pretty well come up with the kind of acres it is going to take to produce what that demand is, if we don't have any political situation that disrupts it?

Mr. LESHER. Not always. For example, there is no way that I or any of the analysts would have predicted an average 113 bushels per acre corn yield for this year resulting in an 8.3 billion bushel crop.

You know July is a critical month for corn, because if you get rain in that 2 or 3 weeks, it can either make you or break you as far as potential production.

There is no way that you can be certain that the weather is going to be good over two-thirds of the United States and give you that crop.

Mr. ALBOSTA. That is not our problem. Our problem is we knew we had to reduce production, didn't we?

Mr. LESHER. We had acreage reduction programs last year.

Mr. ALBOSTA. But the projections for that participation by your Department was that we were going to have 45 or 50 percent of the farmers participating, actually participating. I sat here and listened to the Secretary of Agriculture say that, and that hasn't happened. We were saying that it wouldn't happen. He was saying it would happen. Your Department was saying it would happen. Somebody has to be able to use reasonable judgment on what will encourage farmers into a program and what kind of projections we have to show them in order to encourage them to get into that production.

Mr. LESHER. We put out——

Mr. ALBOSTA. So they will reduce?

Mr. **Lesher**. We put out various information from the Economic Research Service and others showing how, if a farmer penciled it out, it would pay to participate in the program of last year. We did all that work. It is just difficult to know what is inside the farmer's mind and what his reaction is going to be.

First and foremost, the American farmer is a producer at heart. If in fact he can produce he will and will not participate in the Government program.

Mr. **Albosta**. But, Dr. Lesher, can't we help some farmers from going broke by making these reasonable estimates?

If a farmer needs more machinery and more land, he has to have some idea when he goes to the local banker or the farmer land banks or wherever he may go to borrow money as to whatever is the projection of that. If there is no projection coming out of any Government agency, then the farmer has little to judge by when he goes to the banker and that, I believe, is the reason that we have many young farmers simply going broke.

The **Chairman**. The time has expired.

Mr. Roberts?

Mr. **Roberts** of Kansas. Thank you, Mr. Chairman.

On page 7, Dr. Lesher, you have the statement:

> Farmers do not rely on net farm income forecasts for planning purposes, but instead they focus on the prospects for the commodities they produce, the inputs they must purchase

It is those inputs that I want to focus on and I want to take the committee's time to express my appreciation to you and to Mr. Ahalt and to the Department for moving ahead on the cost of a production producer board that we were able to name. It was my amendment and the amendment of Mr. Glickman, to the farm bill that did provide for that board, and it was an attempt by farmers to, if you will, peer over the shoulder of the USDA to make sure some of these reports on these production costs were timely and accurate and very useful.

I might ask you the question, have the other persons been named to the board? I know we named Bill Turentine as chairman of the board from western Kansas, who will be a good spokesman for wheat.

Mr. **Lesher**. I believe all but one.

Mr. **Roberts** of Kansas. Do you have any indication as to when this board might meet? It is your intention that they will meet?

Mr. **Lesher**. Yes, we have to get them together. They will meet soon.

Mr. **Roberts** of Kansas. I think with the meeting of that board some of the confusions, some of the skepticism, some of the cynicism that is in farm country in regard to the reports that the USDA makes or does not make could be addressed.

Mr. **Lesher**. I agree. We welcome that input, and as a matter of fact, when the Crop Reporting Board of the Statistical Reporting Service meets to have the crop reports, anyone is welcome. Farmers or anyone else may sit through that lockup that day and I think most of them will be impressed after they leave.

Mr. **Roberts** of Kansas. I would simply point out that it is my personal feeling after listening to many, many farmers in my district over many, many years that--let me phrase it this way: When Secretary Block came to Dodge City, we had many people waving the various USDA reports around in their hand, saying please don't issue any more reports, we don't need any more reports. And the blood pressure at this meeting was just like Mr Ahalt said; close it down, for goodness sake, and I think the whole key is if the reports are timely and accurate and useful. And, I remember the many, many farm income reports of the previous administration, where we had record exports and record income, but yet if you adjusted for inflation that was not the story.

So I think you are actually headed in the right direction where every second foggy night we have the USDA putting out some report; that report needs to be useful and timely and accurate, and I think you are headed in that direction.

The third thing I want to pick up on is this diversion payments business, and I don't want to be too parochial but yet I will be.

According to the USDA, your own projections, you show that 68 percent of the total supply of wheat is projected to disappear, that is either through our domestic consumption or through exports, but corn, you have the USDA projections show that 73 percent of the total supply of corn is projected to disappear.

I know corn is in trouble, and I appreciate my colleagues from the corn States now jumping on the bandwagon, and they have been in trouble now for about 1 year or 18 months. But, we have been in trouble in my country for 4 years running. We have not had a sustained period of profit in the high plains for 4 years, and my question is, I don't want to begrudge my fellow colleagues or fellow corn producers a 10-percent diversion, but why only 5 percent for wheat?

Mr. LESHER. I will resummarize the points I made earlier. I think that in each instance you try to develop a program that fits that particular commodity to get participation, to get production down.

For wheat, the diversion payment may not look as good compared to corn but then you include the deficiency payment, the spread between the $4.30 and $3.65 loan for wheat versus the $2.86 and $2.65 for corn, and look at the total amount of compensation, it is attractive enough for both wheat farmer and corn farmers to get in the program in a major way to get stocks down, and that is our ultimate goal.

Granted, each one may be a little bit different but we try to treat all farmers fairly.

I think there is a problem. I think that you can go too far. In other words, we can look at the particular commodity and say, look at the surplus, look at the carryover, USDA ought to announce a large acreage reduction and paid diversion program. You risk turning farmers away from the program without large payments.

Mr. ROBERTS of Kansas. They are not sitting on the porch, they are sitting with their banker trying to figure out how they are going to make it through the next crop year.

I would say with an 80-81 base with no help for the summer producer, and allowing the South to continue to double crop, I am not going to say they can't—don't misunderstand me—in the high plains where we have a summer fallow program yet where we produce most of the wheat, many of my farmers are not going to participate. They haven't added to the surplus, they follow their normal crop acreage and when they look for some equity in this diversion and in the set-aside it is not there, so you are going to have 460 million bushels of wheat from Kansas this year and probably more next year.

The CHAIRMAN. The time has expired.

Mr. Hopkins?

Mr. HOPKINS. Thank you, Mr. Chairman.

Dr. Lesher, this is an election year.

Mr LESHER. Yes.

Mr. HOPKINS. Most of us are aware of that, particularly this side of the aisle, this morning.

I would have to say to you very frankly though that the American people, they don't really care about partisanship, I think they are more interested in a partnership.

You are an expert in economics for agriculture. Let me ask you this question, very frankly, very candidly, are we better off now than we were 4 years ago? If not, why not?

Then I would like to know are we going to be better off 4 years from now than we are today?

I would appreciate a very candid answer from an expert.

Mr. LESHER. I will try to give you as honest an answer as I can.

Let's take the easier one first. I cannot predict 4 years from now with sufficient accuracy to make my forecasts useful to you. I just would not be honest to say that Dr. Lesher says in 4 years from now the price of wheat is going to be $5 a bushel or corn is going——

Mr. HOPKINS. What you are saying is—what you have been saying is you don't know what is in the farmer's mind, you don't know what the weather is going to be 4 years from now. I'll buy that.

Tell me about the last 4 years. Are we better off today than we were 4 years ago? If we are not, I want to know why not.

Mr. LESHER. Well, let me give a little historical perspective. I will try to answer your question the best I can.

In agriculture, we went through a period of the 1950's and 1960's in which the price supports really set the market price for farmers.

We produced primarily for the domestic market, very little for the export market, and the price of corn and the price of other things hovered near the loan rates. I was on the farm and I know working with my dad, the price of corn went from 90 cents a bushel at harvest to $1.10 in the off-season. That was year-in, year-out for several years.

During that period of time there were farmers that went out of business, some farmers got larger, they got more efficient, et cetera. It was a tough time, a wrenching time for agriculture.

Then came the 1970's. Renewed prosperity in the world, growth in world demand, crop shortfalls, and there were prices that went up, real price increases for agriculture commodities. This set in motion a series of events where farmers bought more land, inflation was going up, they bought more machinery, they got larger to produce more because the profit incentive was there.

But now you have reached a situation where the world's economies are not growing like they did in the mid-1970's; the weather has been exceptionally good, and many other factors have combined to give very depressed commodity prices particularly for grains.

There are current exceptions. Hog prices are good this year. It is one of the few commodities that are good—record prices. They may be better than in 1977 or 1975, relatively speaking.

Mr. HOPKINS. Let me ask you this: Are we better off now than we were 4 years ago?

Mr. LESHER. I think you have to look at each individual farmer.

Mr. HOPKINS. We obviously don't have time to look at each individual farmer today. But as an expert in economics, are we better off in agriculture now than we were 4 years ago, a simple yes or no answer, a plus or minus? We either are or we aren't.

Mr. LESHER. I can't give you a simple answer. The dairy farmer is in one situation; a wheat farmer is in another.

Mr. HOPKINS. Could you just speculate into the crystal ball in reference to what all the wonderful and good things we have been doing to the people here. We in Government have been doing such a wonderful job, but people can hardly stand it out there. What I want to know, are we headed on the right track for the next 4 years?

Mr. LESHER. I believe I can give you an answer about the future that I think will stand the test of time.

I believe that the American farmer is best served by a general economy that is thriving and growing. That means low inflation, low interest rates, low cost of production and a demand out there for his product. That means a growing domestic demand and a growing export demand.

Mr. HOPKINS. So we are headed in the right direction?

Mr. LESHER. Yes. And it is important for farmers, because they cannot pass on their costs. When they get hit with high energy bills and get hit with other high costs, they are stuck. They have no control of their demand and no one they can pass costs onto if the demand for their products is not growing.

How is it growing? It depends on the population growth and the income growth of the country. I believe that a good sound national economy, which will then pull along the world economy, will be the best for the American farmer in the long run. I think that statement will stand the test of time.

Mr. HOPKINS. Thank you.

The CHAIRMAN. Perhaps it might help to understand the issue better with Dr. Lesher's explanation. There is a chart in the back that says "Net Farm Income." That might add to the answer. The red is in 1967 value dollars and the black is in current dollars, and that comes from the USDA data. If you go back 4 years, it might help Dr. Lesher's answer to look at that. It is in your statement of testimony.

Mr. LESHER. Mr. Chairman, I am not trying to tell the committee that things are rosy out there right now. You can get one perspective from the net farm income picture. But more importantly, you look at prices and what the costs are and it is a tough situation for farmers right now and many others of the country, and I am not trying to diminish the problem.

All I am saying is that the Department of Agriculture has worked with you in trying to get things turned around and I think there is some promise in the future as we get the national economy turned around. I believe that sincerely.

The **Chairman**. Thank you.

We shouldn't argue over whether things are bad or not, we know they are. The question is how are we going to make them better? I have been informed that the Senate has passed the Dixon bill, which is a counterpart to the bill that you are objecting to here this morning, Dr. Lesher.

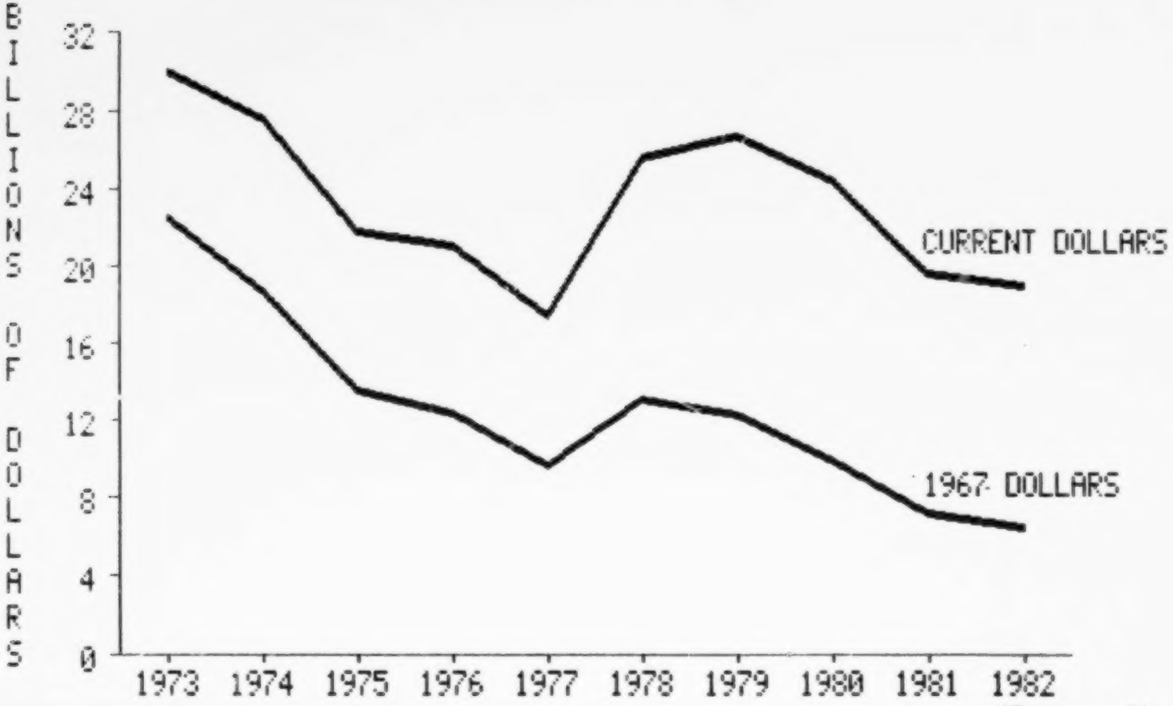
Mr. **Lesher**. I am not too persuasive, Mr. Chairman.

The **Chairman**. They attached the bill, H.R. 6167, to the appropriations bill.

Mr. **Albosta**. Maybe Dr. Lesher would like to withdraw his statement at this time.

[The charts referred to follow:]

NET FARM INCOME*



* Without inventory adjustment
SOURCE: USDA Data

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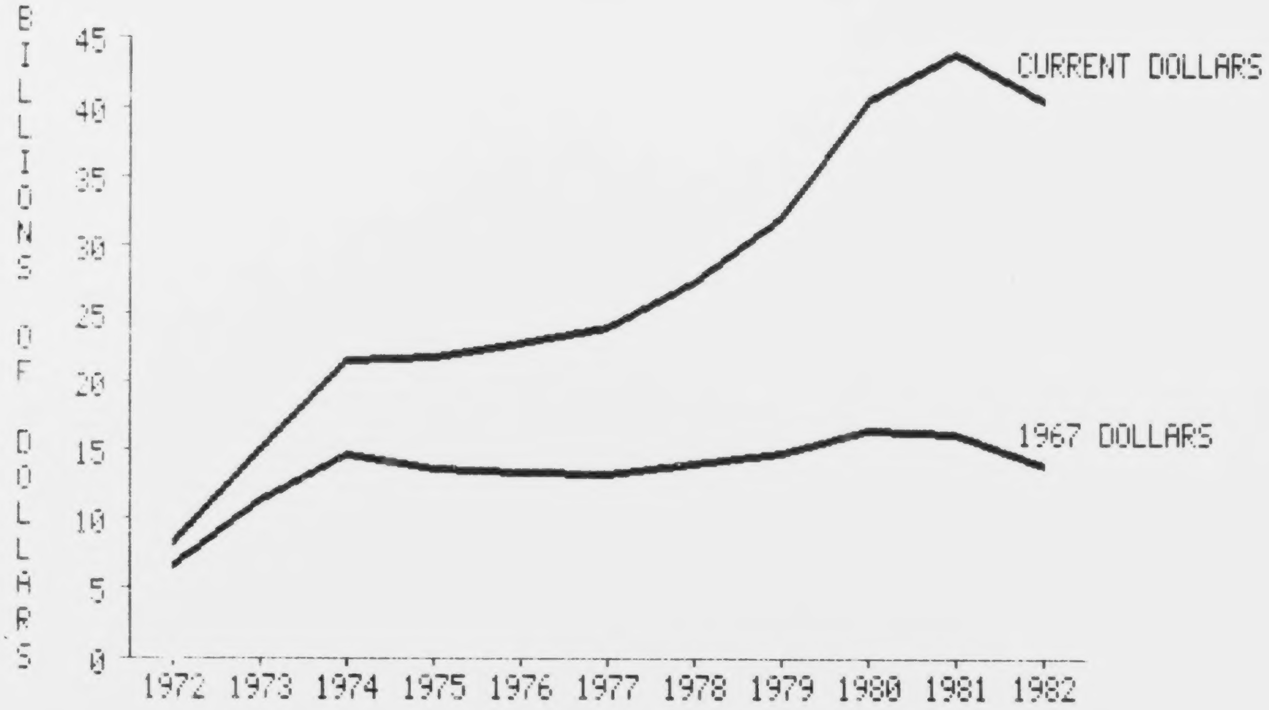
AGRICULTURAL EXPORTS



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Mr. LESHER. No, I do not care to withdraw my statement.

You know, this is not a big issue in the scheme of things, it is certainly not as important as getting prices up.

Sometimes you wonder, why are you making such a fuss about this because it is perhaps causing embarrassment and so on. People like to grab onto this and say you are hiding numbers. But sometimes, Mr. Chairman, if down in your heart you really feel you are right, you have to stand up and say this is what I believe. I definitely think I am right. If others disagree that is their privilege, but you have to stand up and be counted once in a while.

The CHAIRMAN. We have to respect that, Dr. Lesher. Somewhere in between our bill and your desires, or the administration's, or OMB's, or whoever speaks for the Department, we need to arrive at a system that we can rely on, and not just wait until somebody feels the time is proper. I think that is all we are trying to arrive at.

Mr. Huckaby?

Mr. HUCKABY. Thank you, Mr. Chairman.

Dr. Lesher, you state you could not predict the future 4 years out. I would hope you would, with the data available to you, have some indication of the future 1 year out. If you make the assumption that we have normal crops in the United States in 1983, normal world conditions, what type set-asides do you think you will be announcing this time next year for the 1984 crops?

Mr. LESHER. We are looking at an abundant carryover right now of grain. I don't think there is too much question about that. We are going to have close to 1 billion bushels of wheat in reserve. Up to 2 billion bushels of corn in the reserve. The programs we have announced—a combination of acreage reduction and paid diversion—are designed to get the production down. Actions on the 1984 crop would depend on crop developments over the next year.

Mr. HUCKABY. We just assume that they are average.

Mr. LESHER. I would say this. If in fact you come in with average or above average weather—and that means near record crops again—we would continue on a path of trying to reduce supply to get the prices up. I think our intent is clear by these announcements to do everything possible to reduce the burdensome stocks.

Mr. HUCKABY. Would you agree with the statement there is a strong probability that 1 year from now we will have set-aside programs because of the fact that the market price will be less than the target prices, most of our major commodities, as it is today.

Mr. LESHER. I would say that I think it would have to be given serious consideration.

Mr. HUCKABY. If that is the case, have you, the Department looked at maybe changing strategies as far as narrowing the gap between support prices and target prices?

Mr. LESHER. No.

Mr. HUCKABY. Do you think we should continue with spreads that we have?

Mr. LESHER. Well, I think we would have to examine the potential inpacts of any changes.

Mr. HUCKABY. I might suggest you might want to look at that sum off your blue sky factors in the future.

I am especially concerned with the European Common Market, the artificial prices that they have. How are we going to react to that in the 1980's?

Mr. **Lesher**. It is a serious question. With respect to the European community, I testified before a Senate subcommittee the other day and reviewed for them what has happened, how the Europeans have really gone after the high value markets, in beef and poultry and other commodities. They have spent about $7 or $8 billion a year to get the job done. Clearly their internal prices are too high. They have increased production to the extent that they now have to dump on the world market and they do it with subsidies. It is documented in my testimony.

It becomes a question of what kind of tactics we should take, and that is a very difficult question. Some suggest we should match subsidies—an eye for eye approach. That could result in a trade war. Some say you shouldn't do anything since they are destroying themsevles with this kind of policy which is costing them substantial sums of money. However, it may harm us if we stand by and let that happen. We haven't come to an agreement on the appropriate strategy yet.

I think that given the current situation and given the actions of the Europeans some kind of strategy will develop fairly soon.

Mr. **Huckaby**. You are working on various scenarios of strategy?

Mr. **Lesher**. Yes, sir.

Mr. **Huckaby**. To some type?

Mr. **Lesher**. Yes, sir. As a matter of fact, as you know, in the reconciliation bill, there is money for export promotion actions to counter actions by competitors such as the EC.

Mr. **Huckaby**. One final question, shifting gears.

The auto content probably will come before this Congress. I am sure you are familiar with it. What impact, if that should pass, would you see on American agriculture?

Mr. **Lesher**. Well, I am perhaps not familiar with the specific proposals of the bill. I know that Deputy Under Secretary Allan Tracy testified before a Foreign Affairs Subcommittee, that it could cause serious damage to our agricultural trade picture.

Mr. **Huckaby**. Do you foresee the Japanese retaliating as far as with the world markets, let them buy a significantly larger percentage of their requirements away from the United States than they do? Japan is our biggest agricultural customer. Could they shift and acquire their needs from other places?

Mr. **Lesher**. The possibility is there. I can't speak for the Japanese Government or accurately predict what they would or would not do. All I am saying is, there is a possibility that that could happen, and if it happened it could have some pretty extreme consequences on our trade picture.

Mr. **Huckaby**. Thank you.

Mr. **Glickman**. Mr. Hagedorn?

Mr. **Hagedorn**. Mr. de la Garza said before we finish questioning we will try to get all the next witnesses completed so they don't have to come back at 2 o'clock, and we would handle them all as a panel afterward.

Mr. **Lesher**. Did you want me to stay after the panel?

Mr. **Glickman**. I don't know. Everybody who has come here, I think Mr. Volkmer and Mr. English have come, I think it is appropriate to let them go ahead and ask you questions, so I don't think it will be necessary for you to stay.

Mr. **Lesher**. If you wish, I would be glad to stay.

Mr. **Glickman**. Mr. Hagedorn.

Mr. **Hagedorn**. Thank you, Mr. Chairman.

Dr. Lesher, I appreciate your views on this legislation and the difficulty in projecting farm income 1, 12, or 36 months ahead. I think our own Congress and many State legislatures, who have tremendous resources at their disposal, have been equally unable to predict with accuracy what the level of the debt would be, what the level of the GNP would be, what the level of interest rate would be. Therefore, all you are doing is making hopefully an educated guess, but certainly, with the diversity of our agricultural economy, the regions, the energy situation that exists, to do so with any degree of accuracy is extremely difficult, it is a shot in the dark.

Now, the bottom line, of course, is what people can look to overall and the trend line is in the commodities of what the projections are for demand, both for exports, commercial utilization, as well as livestock consumption, so that you can look ahead and predict what is the demand side versus the supply side and what kind of decisions farmers ought to be making in relationship to production.

Mr. **Lesher**. That is right.

Mr. **Hagedorn**. And I kind of concur that to put a breadbasket of all these commodities together, milk and corn and soybeans and pork and beef and you put all these things together and come up and say this is going to be farm income, this is what you can look for. There aren't that many diversified farms left in America today, most of them are corn, soybeans and perhaps pork, or corn, soybeans and beef, or wheat and sorghum or some component like that, and to call it an average farm with the diversified agricultural economy is to say the least an overstatement of what it is.

So I don't think that this is as important, I think it is a symbolic issue, I think it is being discussed here today more for mythical reasons because of the state of the farm economy, and yet I think most of these Members of Congress would have a hard time looking back a year ago and predicting the strength of the dollar.

I guess the U.S. economy looks pretty good throughout the world because we are telling people to convert their yens and deutsche marks and pesos and everything into the U.S. greenbacks because there is a stable government, predictable policies in place, and reason to think that the dollar invested in American real estate or the equity markets is a dollar that is going to be strong and will be there in the event of the collapse of their own government; Mexico, for example, or other countries that are close to a default of their debt obligations.

I think that is what is killing us, the exchange rate, the worldwide recession, the high interest rates that are in a phenomenal situation in the United States. They are high throughout the world, unless you are selling pipeline equipment to the Soviet Union. They can get a good deal, 7 or 8 percent. But I am extremely concerned about how we can put a degree of accuracy into predictions of supply and demand, and that is the kind of information America's farmers want.

Mr. LESHER. I share your concern.

Mr. HAGEDORN. That is where the USDA ought to be investigating its reserve and its dollars to find out where we can develop new markets and how we can do it more effectively.

Mr. LESHER. You see, I agree with what you are saying.

We should put our resources in what really counts for farmers and that benefits farmers in the long run. The farmer will be best served with better outlook information on supply and demand and better ways to market his product. That is my objective.

Mr. HAGEDORN. We need to look at the law of the land. I have had some Public Law 480 legislation introduced in this committee for months, and I have tried to get it passed.

The University of Michigan, the very distinguished university in the State of my colleague from Michigan, has estimated we could expand our exports by over $900 million this year and $800 million next year if we could stop giving such a radical subsidy to middle level and upper level countries. Instead of lowering the interest rates 8 or 9 percent below current rates we could drop it 30 or 40 percent and leverage our foreign aid more effective. Yet here it is the final hour and no hearings. There isn't any interest in expanding export markets at no additional cost to the taxpayers, yet we could do it with no additional cost to the taxpayers.

I have a lot of people wondering why estimates can come out of a distinguished university, a nonpartisan research institute that would show potentially you could expand by nearly $1 billion a year at no cost to the taxpayers, export markets, and you can't get a hearing in the Congress. I don't know why that is either. And I am darn frustrated about it.

But it seems to me that these are the kinds of things we ought to be doing to say something to American farmers that we are—and tell them that we are trying to help them, we are trying to maximize the use of our tax dollars that go for foreign aid, so that we don't give any more than absolutely necessary. And to sit here and talk about what you can predict 1 or 2 years down the road to me is not the answer American farmers want. They want to know when are the demand and the supply ratios going to come into equilibrium so we can get back to producing profitably.

What in the world are you going to do to make it so? That is where you ought to be spending your time in the years ahead.

The CHAIRMAN. Mr. Marlenee?

Mr. MARLENEE. Thank you, Mr. Chairman. Welcome to the committee, Mr. Lesher and Mr. Ahalt.

My basic concern is with the commercial production of agricultural products and there isn't one of those producers out there that isn't carrying a pretty heavy debt load. From August 1981 to date, wheat is down 41 cents a bushel. Overall, we see a projected drop of all farm income of $5 billion. This is the third year of the decline in net farm income which has resulted in the worst economic conditions that we have had since the Great Depression; I think you will concede that.

Our debt, getting back to our commercial producers, our debt has gone up from 1976 when it was $90.8 billion. In 1980 it was $158 billion, and in 1982 it is $194.5 billion.

When you stop and you apply an 18-percent interest factor to that debt load, you have an interest servicing load on that debt, you have an interest factor of $35 billion for American agriculture.

When you figure that out per farm, that is for each farm in the United States of America, that is $15,000 to $20,000 per farm just on the interest alone.

The bottom line in our commercial operation is paying the expenses and then, more importantly, servicing the debt, servicing what you have against your land. Perhaps you have mortgaged that land to pay the expenses because you are operating below the cost of production, so you are trying to service that debt.

I would like to ask both of you what happens when you can't service that debt, and I think you will have to concede that we are seeing quite a few defaults on loans at the present time, and within the Farm Credit System we have a greater number of people that are in arrears than we have ever seen in the history of the Farm Credit System.

Could you comment on that?

What happens when you can't service the debt, first of all?

Mr. LESHER. I am not trying to minimize the effect of increasing debt on agriculture. But all that outstanding debt is not carrying the 18 percent. You have loans made at earlier levels so it is a lower level than 18 percent. Still debt for agriculture is rising and, in particular, it is the larger producers that are increasing their debt. The larger ones are leveraging to a greater extent than we have seen in the past.

Mr. MARLENEE. Wouldn't that be an indication that something is wrong down there on the farm? That they are not receiving the cost of production, a return that they should be receiving.

Mr. LESHER. I think it is an indication that in fact they are not getting the revenues that they need to service their debt and it is getting very difficult for those who have over extended.

Concerning the Farm Credit System, I think you are going to have persons here from the Farm Credit System. I think that delinquencies are going up from say 3 to 4 percent. Farmers Home delinquencies are going up, a marginal amount.

Your point is well taken.

Mr. MARLENEE. We can't service our debt, we are going into delinquencies, Dr. Lesher. How long can we continue in this trend that we have had?

Mr. LESHER. We certainly can't continue on this trend over the next 10 years because it would be too tough for too many producers.

I think that clearly the people that are in the real crunch right now are the ones that purchased or borrowed capital in the last 2 or 3 years at the very high rates. Now with prices the way they are, they are in a severe crunch and that is where the major problem area lies in the issue that you are raising.

Mr. MARLENEE. We cannot continue, you concede, we cannot continue on this trend, Dr. Lesher. What can we do? We know what we have done in the past and it hasn't worked. It hasn't worked to this point.

So my question is simply, what can we do with future legislation or future policies that will alleviate this problem and prevent the wholesale foreclosure or a slide in land prices which is going to create a catastrophic situation out in the agricultural sector and across the Nation. If it isn't alleviated, what can we do legislatively to create, or with our policies——

Mr. **Lesher**. I sit up nights thinking about this problem.

Clearly, the first thing you can do is to try to make the programs that you have right now workable and implementable. In other words, going to the paid diversions, reduced acreage, advanced deficiency payments, advanced diversion payments, and the like to get producers into the program, to get them to reduce acreage and to reduce the supply. That is one thing that we can do.

We are embarking upon a significantly larger program for the 1983 crops and we all know the problems of slippage in acreage programs. The first acreage reduced is the wet holes and the potholes and the sand hills and ditch banks and it is tough to get production reduced that way.

We have gone to larger percentages and feel it will do a better job. This attacks the problem from the supply side. That is one of the few things that we have on the supply side.

The other is the demand side. What do you do to spur demand? A lot of that has to do with the state of the world economies, the demand worldwide, the value of the dollar, and a whole series of things that I am not sure agriculture programs are equipped to deal with.

I think the best thing you can do is to really adhere to a course that is going to get our economy turned around. I think that this will bring a lot of the other economies of the world around, too, and I think that the lasting hope for the American farmer is to get deficits down, get interest rates down, and get the economy moving again.

Mr. **Marlenee**. One final question, by unanimous consent, for that.

My time is up.

The **Chairman**. One additional minute.

Mr. **Marlenee**. I would like to leave you with this thought, and you have made the statements before that if we raise loan price it will in fact, and you have conceded to this, raise world price—or the economists from your Department have, and and Mr. Ahalt and a few others—if we do raise that loan price, and we can't raise domestic prices and world prices, you feel that other countries may in fact slip under us and underbid us on the world market and produce more grain.

With the amount of grain that we have on hand, don't you think that we could retaliate when we control 45 percent of the world's market? Isn't it within the realm of possibility that we could retaliate greatly against countries who won't cooperate with us, the United States, in raising the price so that producers in all the countries, including Canada and Australia, could in fact survive by having a fire sale on that grain?

Mr. **Lesher**. Well, this is an issue that many of us have debated before—raising loan rates and trying to retaliate. I wish I could answer yes, but I truly believe the answer is no. The OPEC countries, which are controlling a nonrenewable resource, are now having a tough time holding their cartel together and supporting the current world prices.

You look at what the other countries are doing, in Canada, the EC and the like, to expand production and I just do not believe that you could have an effective policy that would not be to the longrun detriment of American farmers. Increased world prices give the other countries a greater economic incentive to increase production, to take over markets despite the fact that our American farmers are the most efficient in the world.

Mr. **Marlenee**. I am talking about retaliation when they undercut us, and I think that we played Mr. Nice Guy long enough.

Mr. **Glickman**. Mr. Volkmer?

Mr. **Volkmer**. Thank you very much.

Dr. Lesher, I just would like to continue that.

What I am hearing is that in the event that the Congress would go along with you and authorize a sale of grain that is in the reserve at less than the world price, that you would oppose that?

Mr. **Lesher**. I think it would be selling the Commodity Credit Corporation-owned grain at less than the world price?

Mr. **Volkmer**. Yes.

Mr. **Lesher**. Yes, I think we would be replacing our commercial sales and it is just trading 10 bushels of wheat from CCC for 10 bushels of wheat we would normally make available from the private market, and I am not sure there would be any advantage to that.

Mr. **Volkmer**. In other words, you don't believe that we could be able to make sales through underdeveloped nations for a lesser price?

Mr. **Lesher**. I think we all face an ironic situation.

You have a world in which much of the population does not have enough to eat and, at the same time, you have the United States of America that is the most productive Nation in the world and can produce grain and provide that food. The lacking element is the money to buy the grain. If you are saying you are willing to give that grain away to Africans and others, then in fact it would be an additional demand. But you would simply have to give it away because they can't pay for it.

On the other hand, if you are talking about selling the grain a dime lower per bushel to someone who would buy our wheat anyway, then that is not a winning proposition for us.

Mr. **Volkmer**. Getting back to the original question here as far as predicting farm income, do you see anything in the major commodities for the next year's crop—this continues some of the thoughts expressed here today—that would show that next year there should be an increase in price of those major commodities? And if so, what commodity.

Mr. **Lesher**. We think that with the announced programs we can get stocks down certainly below what they would have been without the programs. I think that you can get the corn crop, with average weather, down to 7.7 billion bushels rather than the 8.3 that we are going to have this year. But stocks will still be large.

It looks like, Congressman, that we are going to have abundant supplies of wheat and feed grains and cotton and rice for some time. I don't think there is any question about that. But we have very quickly reduced such large supplies in the past and we may again.

Mr. VOLKMER. Well, I have some farmers telling me their predictions last week, $1.50 on corn. What do you think about that?

Mr. LESHER. No.

Mr. VOLKMER. This fall?

Mr. LESHER. No; I don't see that.

Mr. VOLKMER. What is your lowest estimate?

I am not going to hold you to it.

Mr. LESHER. I believe that a $1.50 is too low. There are many isolated pockets that are talking about $1.80 for new crops but not much grain is going to be sold at that price. Farmers are saying that that is like giving their grain away and they would rather look for storage. They will put it in the barn where they have never stored grain before and they will not move much grain at that price. And I think grain prices will come up. I am not saying they will go through the roof but I don't think you are going to have $1.50 corn.

Mr. VOLKMER. But do you see any sign that next year the commodity prices will be improved sufficiently where the farmer can at least make his cost of production?

Let's take beans.

Mr. LESHER. When you are talking about farmers covering the cost of production you have to break it down into individual farmers. But I will make a general statement.

Mr. VOLKMER. On the average cost of production?

Mr. LESHER. It is difficult to see that we are going to have prices that are going to be at levels that farmers would say would be adequate to cover their cost of production. I think that even with the diversion programs, the acreage reduction programs, the advanced deficiency payments, the advanced diversion payments, and the resulting high participation I don't think prices are going to skyrocket upward, of course I can't predict weather and I can't predict world developments.

Mr. VOLKMER. I know you can't.

Mr. LESHER. But given average weather, it is difficult to say that prices are going to be at levels that farmers are going to be happy with.

Mr. VOLKMER. And it probably meant that the farmers aren't going to be able to buy replacements on machinery?

Mr. LESHER. Yes, sir, they are likely to continue to repair old equipment.

Mr. VOLKMER. They are not going to lime their fields again?

Mr. LESHER. Yes, sir.

Mr. VOLKMER. These things are going to continue to occur, which means agribusiness is going to continue to be hurting?

Mr. LESHER. We have already seen that happen.

Mr. VOLKMER. It is going to continue next year too?

Mr. **Lesher**. Well, you can only forego fixing up your combine 2 or 3 years. Sooner or later they will come back and buy new machinery. They are going to put lime on their fields, they are going to have to put potash and phosphate on but they may not do it unless they are really squeezed.

Mr. **Volkmer**. Thank you.

The **Chairman**. I want to make sure that the rest of the panelists will be able to stay. We would like to finish right after Dr. Lesher is through. I think we will be done by 1 o'clock.

Does anybody who is yet to testify, have any problems with that? We will have you come up as a panel. We think we can get done fairly quickly.

Mr. English?

Mr. **English**. Thank you very much, Mr. Chairman.

Dr. Lesher, would you agree that the principal ingredient in our difficulty, particularly as far as grain is concerned, is pretty much a supply and demand problem; namely, we have had some very large harvests take place in this country, and that grain has been accumulating; isn't that true?

Mr. **Lesher**. Yes, sir, the problem is large crops and weak demand.

Mr. **English**. I remember, I believe it was 1 year ago last spring when the Secretary of Agriculture first came before this committee, to discuss his program, his very first proposal. Many of the members of this committee were pointing out then we had had a large harvest, we had a large carry-over, and that we needed a pretty good set-aside to reduce that supply and to keep that price up.

The Secretary of Agriculture told us at that time that he didn't support the concept of set-asides, that he didn't like them and that he was going to develop enough markets around this world to pretty much consume all that the American farmer could produce, but that was the direction to go.

Do you know of any reason why this committee should now not draw the conclusion that the Secretary's program is a total failure and the glut that now is on the market that is depressing prices is one that the Secretary of Agriculture was warned about by this committee?

Mr. **Lesher**. I would respond, Congressman, by saying that clearly we didn't expect that the crops would be as large as they now appear. I don't think, however, that the Congress nor anyone else knew with great certainty what the size of the crops would be. We were trying to implement the programs that we thought were appropriate given the conditions that existed at that time.

Mr. **English**. Dr. Lesher, the point is this: We can go back, we would be happy to pull the transcripts and we will be happy to read you the statements that were made. I know I made some and other members of the committee did with regard to this very point. So I think that you would have to say members of the committee at least had some intuition that things were going to get bad, very bad, unless we dealt with this supply problem and unless we dealt with what was then perceived to be a pretty good size carry-over, and that is the problem, the fact is the Secretary of Agriculture did not heed the warnings of this committee. He did not heed the warnings of the members, and I remember very clearly that the Secretary said his philosophy was totally in opposition to set-asides and that he believed that he could develop the markets overseas, he assumed the burden personally, he took it on his shoulders, so I think when we find now that we have mammoth surpluses, mammoth carry-over, and depressed prices, the Secretary has to shoulder a good deal of that burden, and I think American farmers have been very kind, quite frankly, in not laying that on the Secretary. I don't know why because the facts are certainly there to support it.

Mr. LESHER. Hindsight is always 20-20, Congressman.

Mr. ENGLISH. But the point is that the Secretary of Agriculture did not heed the warnings of the members of this committee, did not heed the warning of members of the Senate Agriculture Committee, in trying to hold down that surplus, that overproduction.

Can you refute that?

Mr. LESHER. I think the reason why the farmers are still with the Secretary of Agriculture is because they know that he has their interests at heart and he thinks exactly like they do because he is a bona fide farmer.

I think most farmers would agree if they had their wishes they would rather not participate in any Government programs and get a price for their product in the market. I think that is what the Secretary was articulating and what he wished could be done for American agriculture.

But with the depressed world economy, the demand side is much weaker. It is not possible to sell our products the way we had hoped and with record crops we are back into a surplus situation. We have implemented large acreage reduction programs to cut the supply.

Mr. ENGLISH. Then we would have to draw the conclusion, Dr. Lesher, given the statements that the Secretary made here, that he finally recognized that this policy had failed and what we have now is too little too late. Now that we are in the soup, the Secretary finally decides that he wants to do something to try to reduce production.

This committee produced a piece of legislation earlier this year that would have reduced production next year more than what the Secretary proposed, substantially, if it had gone with a 25-percent set-aside. Some people feel that is not enough to turn around the farm economy.

But I guess the point I want to leave you with is this: What we are looking at is a total failure in what the farm bill was designed to do back in the 1930's, and that is to provide future generations with an abundance of food and fiber at a reasonable price, and the way to do that is through the family farmer and what we are going to see happen over the next few months is the loss of family farmers, the removal of those family farmers from the farm, that will rival no period since the Great Depression.

That, in my opinion, is what we are going to see. I don't think it was necessary, Dr. Lesher. I don't think that we needed to see that take place. I don't think that it is in the best interests of this Nation to remove the production of the majority of the food and fiber from the hands of the family farmer. I think that is what the policies of the Secretary over the last 18 months have done for us.

Thank you, Mr. Chairman.

Mr. **Glickman**. I am going to recognize both the gentleman from Texas and the gentleman from Michigan for 2 additional minutes, then we will move on.

Mr. **Albosta**. Dr. Lesher, I want to describe to you something that I just recently experienced.

I went to Hamburg, Germany, and rented a car and drove up to Poland and made arrangements to talk to people from the Parliament. I did this at my own expense. I talked to the Foreign Minister of Agriculture and he told me he has been a previous buyer from the United States of 4 million metric tons of corn. Because of political situations in this country, they are not going to buy any more corn from us, and what cash they have they are taking over to Argentina and buying Argentinian corn.

I finally got his nerves calmed down and asked him how would you like to barter with us? How would you like to save some money? You wouldn't have to go to the world market banking system, or wherever, to get the cash, but barter with us and we will make a triangle, and we will give you the corn and we will continue this type of arrangement and we will find the buyer for your other products.

They are willing to do that and the Agriculture Department ought to pursue this as fast as they possibly can. What I would like to see happen would be for us to forget about what the past is right now. I know there is a political election up and all of us are concerned about running for election. But I would like to see your Department and the Secretary of Agriculture forget about politics for a little bit and be concerned about what is happening to that group of American farmers who are going to lose their farms.

So my question to you would be, will you go back to the Secretary of Agriculture and will you take this message to this administration?

The Poles are willing to barter with us for coal, and they can save 15 percent at least on the interest, if we will do this. That is a saving to that country.

Mexico is willing to do it and I think we could find other nations in Africa. If the Secretary of Agriculture is really concerned about this, he should pursue it as fast as he possibly can, because I don't see any other solution. We have to stop asking for hard world currencies. These nations don't have it. But they have precious metals or other materials that we can use and my question to you, will you promise this committee that you will go back there and pursue it with the Secretary of Agriculture?

Mr. **Lesher**. I promise I will tell the Secretary of Agriculture.

I really believe that good policy is good politics and I never want you to think that we place politics before policy—and good policy is to get farm prices up and keep family farmers in business. I think that is our primary goal and nothing else.

Mr. **Albosta**. This is one way of helping to accomplish that. They are willing to take 3 million metric tons of corn now if we can make that arrangement today. They would probably start negotiating that deal today for coal or sulfur, which they do have. They don't have oil but Mexico has oil.

Mr. LESHER. I will definitely mention it to the Secretary of Agriculture.

Mr. GLICKMAN. Mr. Stenholm?

Mr. STENHOLM. What is the current estimated participation rate in the farm program for 1982 for corn, wheat, and cotton.

Mr. LESHER. As a percent of the base, compliance for corn was about 29 percent, wheat close to 48 percent, and cotton was around 60 percent.

Mr. STENHOLM. In light of those numbers and in light of the statement of the Secretary when he was before the committee, I forget exactly at what time, but his adamancy against rewarding those who stay out of the program.

I am troubled again and I want to follow up on the question from my colleague, Mr. Roberts of Kansas, concerning the recent announcement of a 10-percent paid diversion for corn versus 5-percent pay diversion for wheat, versus a 5-percent voluntary paid diversion for cotton. And I am troubled by the reasoning and the logic that might be prevalent given the total philosophy of your Department in regard to the various commodities' participation rates.

The question, what is the logic, why a 5-percent——

Mr. LESHER. A legitimate question.

Mr. STENHOLM [continuing]. Versus 5 percent voluntary in cotton.

Mr. LESHER. On the feed grains you look at 29 percent of the base complying and with the current carryover stocks of feed grains it is critical that we get increased participation. As a result we went above what the Congress mandated by 5 percent and went to 10–10 on feed grains.

On cotton, we had good participation in the cotton program, fairly good, about 60 percent. There is a feeling however that despite the disastrous crop that your part of the country experienced, we are still not talking about a significant reduction in cotton stocks. We are not down to the 3 or 4 million bales that is considered adequate reserve. We are still maybe at a 6 million bale carryover. So you go with a 20-percent reduction.

For those who want to offer an additional 5 percent average reduction in cotton, they can do so. We did not want to make that a total requirement because it could turn some cotton producers away from the program. Many will be up against the payment limitation in cotton.

Farmers bumping up against the $50,000 will say that the additional 5 point paid diversion is of no value because they would not get it. So you make that optional for those who want to go the additional set-aside and reduce production.

In wheat we have 48 percent participation with 15 percent acreage reduction program. You offer them a 10 percent average reduction and 5 percent paid diversion so you can break through the 50 percent participation barrier and keep good participation in the wheat program.

We really have tried to design those programs to get participation—good participation so we can get the stocks down. I think it is defensible.

Mr. MARLENEE. Would you yield?

The CHAIRMAN. One additional minute.

Mr. STENHOLM. I don't have the time to yield.

Mr. GLICKMAN. I yield the gentleman 1 additional minute.

Mr. MARLENEE. We have heard a lot of discussion about set-aside being one of the answers. Obviously we are trying to do something about reducing production, but again we come back to the premise that the other countries who are in production, especially the wheat-growing areas, are going to increase production to offset our decreases. The same holds true, you utilized that argument against increasing loans.

Now we are talking about set-aside, they are going to move into that area. We have heard that discussion.

Mr. LESHER. Yes.

Mr. MARLENEE. So I see some inconsistencies in your testimony in that you advocate set-aside to reduce production, and we assume that they will move in and absorb the market that we set aside, yet you opposed raising world prices and domestic market prices because they might—you have a fear that they might come in and underbid us and capture more of our market.

This is one Congressman that is going to look at legislation in the coming year, or try to press to utilize our huge surpluses as a retaliatory tool if these other nations do not cooperate with the United States in trying to raise world price on grains.

Mr. GLICKMAN [acting chairman]. Thank you, Dr. Lesher, for staying so long. We appreciate it very much.

Mr. LESHER. Thank you very much.

Mr. GLICKMAN. I would like to call our next group of witnesses. There are four of them:

Mr. Kim Bowersox, Director of Congressional and Public Affairs Division, Farm Credit Administration, accompanied by Mr. George Irwin, Director of Economics and Development; Mr. Emil Melichar, Economist, Federal Reserve System; Mr. Daniel Ballard, economist, Chase Econometrics, Bala-Cynwyd, and Mr. Richard Pottorff, economist, Data Resources, Inc., Washington, D.C.

We thank you gentlemen for being here. I would say that for you to use Dr. Lesher's statement as a model, not so much in what he said but that he did not feel compelled to read his entire statement. He did summarize, which I think is most useful for us because we can read. We will ask you to generally summarize.

I would like to take you in the order we listed you on the witness list, Mr. Bowersox, Mr. Melichar, et cetera, et cetera. Why don't you each proceed for 5 minutes if you can, and we will see how well you do, then we will get the questions after you all complete.

STATEMENT OF KIM C. BOWERSOX, DIRECTOR, CONGRESSIONAL AND PUBLIC AFFAIRS DIVISION, FARM CREDIT ADMINISTRATION

Mr. BOWERSOX. Thank you, Mr. Chairman.

First, Governor Wilkinson regrets he is unable to be here today. A longstanding prior obligation requires his presence in Louisville.

Mr. Chairman, my name is Kim C. Bowersox. I am Director of the Congressional and Public Affairs Division of the Farm Credit Administration, the independent Federal agency that regulates and supervises the cooperatively owned Farm Credit System. I am joined today by George Irwin, Director of the Economic Analysis Division of the FCA.

I would of course like to submit the testimony for the record and just provide a very brief summary to you.

Mr. GLICKMAN. All of the testimony of everybody will appear in the record.

Mr. BOWERSOX. The cooperative Farm Credit System consists of federally chartered instrumentalities that operate under authorities contained in the Farm Credit Act of 1971.

The Farm Credit System is now entirely borrower-owned and controlled. Even the costs of the Farm Credit Administration [FCA], the independent Federal agency that examines and supervises this system, are assessed upon the banks it supervises; therefore, it is the system's borrowers and not the taxpayers who pay the expenses of the Farm Credit Administration.

The Farm Credit System obtains its loan funds primarily through the sale of securities in the national and international money markets. These securities are not guaranteed by the U.S. Government. They are sold through the system's fiscal agent in New York City.

The 12 Federal land banks [FLB's] make loans ranging from 5 to 40 years through local Federal land bank associations.

The Federal intermediate credit banks [FICB's] provide loan funds to local production credit associations [PCA's] and discount the notes of eligible borrowers given to other financing institutions.

The banks for cooperatives [BC's] serve agricultural, aquatic and rural electric cooperatives whose headquarters are within their respective districts.

The Central Bank for Cooperatives participates with the district banks for cooperatives in loans that exceed their individual lending limits.

The Federal Farm Credit Board is the top policymaking body for the Farm Credit Administration and the cooperative Farm Credit System. Members of the Federal Farm Credit Board, as those of all other boards in the system, serve on a part-time basis. Twelve members of the Board, one from each farm credit district, are appointed by the President of the United States with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A 13th member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The Governor is the Farm Credit Administration's chief executive officer. He is appointed by and serves at the pleasure of the Federal Farm Credit Board. He is ultimately responsible for carrying out the policies of the Board by insuring that the Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest.

Each institution of the system is a user-owned and controlled cooperative association. FCA supervision is designed to oversee the actions of the district boards to insure sound management of the banks and associations.

The Farm Credit System was providing more loan funds in the middle of 1982 than at any other time in its history, and serving a near-record number of borrowers. The number of FLB loans on July 31 reached 663,849, which was 6.2 percent above a year earlier, with an aggregate amount of $49.6 billion. Production credit associations held 381,707 loans for $22.7 billion. An additional $900 million was outstanding from FICB's to other financial institutions. Growth in total system loans outstanding has been slowing throughout recent months. Recent loan experience thus suggests that farmers and their cooperatives have already tightened their belts somewhat, paying off existing short-term debts where possible and minimizing new borrowing.

Further, overall performance of the loan portfolio has been generally acceptable through mid-1982, although recent credit reviews have shown evidence of the weakening position of some borrowers.

STATEMENT OF GEORGE IRWIN, DIRECTOR, ECONOMIC ANALYSIS DIVISION, FARM CREDIT ADMINISTRATION

Mr. IRWIN. Mr. Chairman, I want to make seven summary statements and then you can follow up as you please from the written testimony.

One, economic problems in the farm sector are widespread and severe, whether one looks at the balance sheet or the income statement. Hence it is a very appropriate time to be looking at the financial performance of farmers in meeting loan commitments.

Two, inevitably this means that credit conditions have deteriorated. But I would emphasize that they have deteriorated by much less than one might expect.

Three, unfortunately, the prospects for 1983 and perhaps 1984 don't look like they are going to improve. If anything, they are deteriorating.

Four, there are groups with special problems including larger commercial farms, particularly those that have expanded in recent years, some that have undergone adverse circumstances of growth or other conditions in the recent past, and then some that either have limited total resources to work with or limited managerial ability.

Five, we really won't know how many producers are going to have problems until we see the 1982 repayments come in and the 1983 loanmaking period over the winter months. There are some factors on each side of the picture.

Six, as always has been the case, the Farm Credit System policy is sound, adequate, constructive credit in good and bad times. Obviously we are in the latter now and that tests the forebearance policy of the system.

Without Government guarantees and without Government capital, it is obviously necessary to keep the system healthy for the benefit of borrowers.

That means that there will be a lot of loan service activities during the coming year.

Finally, we have been doing extra monitoring efforts to find out what is going on and have been sharing information with leaders in the administration and Congress. We appreciate the opportunity to provide some of those in the written testimony which you have before you.

Thank you very much.

Mr. GLICKMAN. Thank you.

Does that complete your oral testimony?

Mr. BOWERSOX. Yes.

Mr. GLICKMAN. We will move on to Mr. Melichar, economist for the Federal Reserve Board.

STATEMENT OF EMANUEL MELICHAR, SENIOR ECONOMIST, DIVISION OF RESEARCH AND STATISTICS, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

Mr. MELICHAR. I would like to make some comments on farm income and, in doing so, refer to some charts that are in the statement that I submitted. In these charts all data are displayed in dollars of 1982 purchasing power.

Mr. GLICKMAN. I think we have those.

Mr. MELICHAR. My observations on farm income are based on my work in agricultural finance at the Board of Governors of the Federal Reserve System. My statements and views do not necessarily represent the views of the Board of Governors or of other members of its staff.

The first chart examines how well the commonly used farm income series measures changes in the profitability of farming. Most attention is usually focused on operators' total net farm income. This income return to operators is the sum of returns to their labor, management, and capital investment.

Over a short period of years, the amount of labor and management that the farmers use does not change greatly. Thus, if you look at the 1979–82 changes in total net income and in the return to capital, you get about the same picture, as shown in chart 1.

Over a longer period of time, however, more and more of the total farm income has been a return to capital, because the labor provided by operators and their families has decreased greatly. For instance, since 1940 the annual amount of man-hours used in agriculture has fallen from 20 billion to about 4 billion.

Thus, contrary to the impression conveyed by the operators' total net income series, farming is considerably more profitable now than it was in the 1920's and during the Great Depression. Recent historical comparisons of the profitability and financial situation of agriculture based on the total net income data have been misleading. The recent return to capital resembles that of the 1950's rather than that of the Great Depression, when the return was negative.

Chart 2 shows the derivation of the returns to capital and equity. Since the 1930's, gross farm income has risen substantially. After operating expenses are subtracted, the income return to labor, management and capital has been rather flat since the 1950's. However, as I noted, the income return to capital has been in a substantial uptrend from the mid-1950's through 1979. That uptrend has been interrupted by the lower returns of 1980–82.

Similarly, the return to equity—the return after interest payments are subtracted from the return to capital—has also been in an uptrend until recent years. The higher interest paid in 1980, 1981, and 1982 caused that return to fall even more sharply than the return to capital. Since 1979 the income return to capital in 1982 dollars dropped by about $18 billion. Interest paid rose by $5 billion over that period in 1982 dollars, and so the income return to equity dropped by $23 billion.

Of this increase in interest payments, about one-half was due to the greater volume of credit being used. Therefore only about $2.5 billion of the reduction if the return stems directly from the increase in interest rates, and that compares with the total drop in the return of $23 billion. Thus higher interest rates have been directly responsible for perhaps a tenth of the total reduction in return to equity. Clearly, farming has problems that go beyond high interest rates.

Next, to assess the impact of changes in farm prosperity on the rural economy in general, the best indicator is probably cash flow rather than simply net income. Chart 3 shows that since 1979 there has been a large reduction in the cash flow to operators and landlords.

Also, there has been a change in how the use of credit has affected cash flow. During most of the 1970's, additional borrowings exceeded annual interest payments, and thus the use of credit increased the cash flow of operators and landlords. In 1980 and 1981, however, interest payments exceeded the additional borrowing, and so use of credit reduced cash flow.

Finally, some of my work since the late 1970's has dealt with the relationship between farm income and land values. In such work, one frequently sees illustrations such as chart 4, which give the wrong impression of that relationship.

For instance, most people compare the value of farm real estate with operators' net farm income. As I have pointed out, however, operators' net farm income is not an appropriate measure of the return to capital. If you compare the value of farm real estate with return to capital, you find that both trended upward over the 25 years ending in 1979.

However, if you make this comparison in the manner of chart 4, it still seems that the increase in value of farm real estate has overwhelmed the income return. On chart 5, however, these two series, which have much different dollar levels, are compared on a ratio scale, on which similar trends will have equal slopes. This chart shows that since the mid-1950's the value of real estate and the income return to capital have in fact increased at about the same rate.

Therefore, the major longer term influence on land prices has been the increase in profits from farming. However, with this increased profitability drastically interrupted during the last 3 years, it is not surprising that we have had a reaction in land values.

That completes my statement.

Mr. GLICKMAN. Thank you very much.

[The charts referred to appear at the conclusion of the hearing. A paper entitled "Farm Sector Financial Experience," presented at the Faculty Seminar, Department of Agriculture Economics, University of Maryland, Nov. 6, 1981, is held in the committee file.]

Mr. GLICKMAN. Mr. Ballard?

STATEMENT OF DANIEL BALLARD, ECONOMIST, U.S. AGRICULTURE SERVICE, CHASE ECONOMETRICS

Mr. BALLARD. My name is Dan Ballard, and I am an economist with the U.S. Agriculture Service, Chase Econometrics. We are an economic forecasting and analysis concern.

The significant and extended weakness in U.S. agriculture has caused considerable concern regarding the economic vitality of U.S. farmers. Realized net farm income, deflated by 1967 prices paid by farmers, dropped from $10.7 billion in 1979 to approximately $6.5 billion in 1981.

If realized net farm income is deflated by prices paid by farmers—1967 equals 100—then the 1981 realized net farm income, as does the prospective figure for 1982, rivals the depression levels of the 1930's, table 1. For example, realized net farm income in 1931 was $8.8 billion—1967 dollars. It then collapsed to $6.2 billion in 1932 and remained below $8.5 billion through 1934.

However, during the depression of the 1930's there were 30-33 million people residing on 6.6 million farms. Thus, realized net farm income per capita was only $285—1967 dollars—in 1931 and collapsed to $196 in 1932.

Today, only 7 million people reside on 2.67 million farms. Constant dollar realized net farm income per capita, therefore, increased to $914—1967 dollars—in 1981, or $2,444 per farm, although the aggregate figure is comparable to that of 1932. We have a situation where the 1981 per capita figure is about equal to the 1932 per farm figure.

During the decade of the 1970's, realized net farm income per capita reached an alltime record high, $2,185—1967 dollars—in 1973, when Russian grain purchases reduced U.S. grain stocks to a 20-year low. Farm income per capita subsequently dropped to a low of $1,101—1967 dollars—in 1977, when bumper crops collapsed wheat and corn prices to $2.25 per bushel and $1.60 per bushel, respectively.

The decade of the seventies was, however, the most profitable decade in the history of U.S. agriculture. During the past decade, per capita realized net farm income—1967 dollars—averaged $1,394, or $4,303 per farm. The 1981 estimate of per capita farm income is 34 percent below the average for the 1970's, and the Chase Econometrics projection for 1982 is 42 percent below the decade's average. Thus, it is apparent that farmers are currently suffering through the most severe downturn in real farm income since the 1930's.

The downturn which led to the current recession in the farm economy was initiated in 1980, as constant dollar farm cash receipts fell nearly 6 percent to $49.6 billion. Real crop receipts in 1980, were, by contrast, at the highest level since 1974; crop cash receipts were strengthened by the 1980 drought, which significantly reduced crop production.

Real livestock cash receipts further declined an additional 6.2 percent in 1981 due to an additional 1 percent advance in meat production and sluggish growth in real consumer income. Crop cash receipts—1967 dollars—fell 2.7 percent in 1981, but remained supported by the 1980 drought-reduced supplies.

The economic farm setting for 1982 has been quite different. In response to the dismal livestock situation of 1981, meat production has been cut back and livestock prices have increased markedly. As a consequence of lowered livestock production, feed demand has been reduced as well.

While livestock cash receipts—1967 dollars—in 1982 are expected to hold even with the year-ago level, crop cash receipts are forecast to decline 8.1 percent. Consequently, total cash receipts in 1982 are forecast 4.2 percent below the 1981 level.

The outlook for 1983 is for further weakening in the crop sector due to the second consecutive bumper crop. The impact on the crop sector of the record harvest will be magnified by the relatively low participation rates in the Government's 1982 reduced acreage programs—RAP; producers not in compliance with the RAP are currently ineligible for Government support programs.

We believe that the low eligibility for Government support programs will result in the respective crops' price support levels proving to be ineffective floors. Real crop cash receipts are consequently expected to decline an additional 1 percent in 1983.

I have also presented in my materials the current dollar farm income balance sheet just for your additional input for your analysis.

I also would like to take a stand on the legislation regarding the USDA report frequency.

In the past, the USDA followed an unofficial policy of releasing monthly farm income estimates. Early in 1982, the Agriculture Department developed an official policy: The first estimate of the previous year's income will be released in July, and this will be followed in September by the single forecast of current year farm income.

The USDA, however, continues to prepare income projections on a more frequent basis, supplying the Commerce Department with this information quarterly. Thus, unlike the justification offered by the USDA in the sweeping cutbacks in basic data collection, the altered release schedule for farm income does not represent a cost reduction for the Federal Government.

The rationale offered by the USDA for the reduced frequency of reporting is that forecasting is an inexact science and the relevance of the numbers may therefore be overstated. Despite the inaccuracy inherent in long-range projections, systematic, professional analysis is indispensable to the agricultural economy: the current difficult economic climate actually increases the importance of timely information and analyses on the health of agriculture.

Farm income information is vital to at least three major segments of the U.S. economy: agribusiness, governmental agencies, and legislatures. The agribusiness sector needs farm income information in order to provide farmers with farm input supplies, especially tractors, buildings, and other capital goods. When farm demand for tractors or other machinery expands, farm equipment manufacturers need leadtime to order raw materials, produce the equipment, and then distribute it to retailers. Conversely, farm supply manufacturers needs to be forewarned of an impending deterioration in farm income in order to reduce production and thereby prevent an excessive and costly accumulation of inventory.

We in the agribusiness-consulting industry are constantly asked to make such information available to the farm supply industry. Monthly updates by the USDA provide a valuable input into our analysis. In addition, many small manufacturers' total sales do not warrant the purchase of consultant services. The small agricultural firms who rely upon USDA farm income analysis for their planning functions are now operating in an information void. Their position in agricultural markets relative to that of the larger agricultural concerns is thereby weakened.

Governmental agencies require frequent farm income updates to facilitate more effective administration of agricultural programs. There are undeniably problems associated with the USDA's farm income estimates; however, we have found it to be a very useful gauge of the health of the farm economy. We, therefore, believe that with monthly farm income estimates Government agencies are better able to administer the programs that Congress has legislated in a manner consistent with the intent of Congress.

The legislatures require a constant monitor of the agricultural economy to develop, in a timely fashion, those programs best suited toward the maintenance of a strong, growth-oriented agriculture industry. Congressional legislation strongly impacts farm production and marketing decisions.

The importance of constant expert analyses and forecasts of the agricultural sectors is highlighted by the inherent lags in livestock and crop production. Consequently, legislators need to have a good handle on prospects for the future in order to pass effective legislation today.

In summary, we recognize the difficulty of one indicator measuring the health of such a diverse economy. Nonetheless, the farm income estimates provided by USDA are valuable indicators of the direction of economic adjustment in agriculture. Thus, it is the opinion of Chase Econometrics that the USDA ought to increase the frequency of its farm income estimates to facilitate informed agricultural decisionmaking.

[The prepared statement of Mr. Ballard appears at the conclusion of the hearing.]

Mr. GLICKMAN. Our last witness is Mr. Richard Pottorff, manager, Agriculture Service, Data Resources, Inc., and, as I told the other witnesses, your entire statement will be included in the record.

STATEMENT OF RICHARD C. POTTORFF, MANAGER, AGRICULTURE SERVICE, DATA RESOURCES, INC.

Mr. POTTORFF. There is no single factor that has caused the current agriculture crisis, but rather a complex set of developments concerning both the supply and demand for agricultural products.

Although the developments are complex, it is not fair to say that these events were unforeseeable.

It is extremely doubtful that any single agriculture policy can correct the current calamity and restore long-run economic health to the agriculture industry. In the current uncertain environment, information and projections take on special significance as individuals and companies involved in agriculture attempt to make planning decisions.

I would like to address my testimony to two separate but related issues. The first is the continuing crisis in U.S. agriculture, and the second concerns the pending legislation that would require the USDA to provide farm income projections on a prescribed schedule.

There is no doubt that the financial situation in U.S. agriculture in 1982 is serious, indeed. Farm income will slip to extremely low levels this year, following seriously low levels in 1980 and 1981. Some of the important factors responsible for the crisis include:

One, large crop production levels in 1979, 1981, and 1982.

Two, the cessation of grain sales to the Soviet Union in 1980.

Three, recession in the United States and world economies.

Four, the strength of the dollar.

Five, rising interest costs.

Six, economic difficulties for several key trading partners.

Steps are being taken to reduce crop production levels. The policies now being implemented will, no doubt, reduce acreage and will probably reduce production. Such programs have always had somewhat limited success for a variety of reasons, and some of these problems are unavoidable while retaining the individual farmer's autonomy. However, some of the ineffectiveness of the programs are self-imposed and should be revised.

Much has been written about the Soviet grain sales suspension imposed in 1980. This policy decision had and will continue to have serious long-run implications for U.S. agriculture. The loss of a major portion of a very important market was a serious development, but the resulting increase in production capacity in other exporting countries is even more serious. Production capacity in the major exporting countries has increased significantly in recent years, and the major incentive for much of the expansion in Argentina can be traced to this decision.

The ongoing period of slow growth in the United States and developed market economies has influenced farm income for the last 2 years. It has influenced domestic demand for agriculture products and has influenced international trade in several ways.

First, other developed countries have experienced the same sluggish demand for meat products experienced in the United States, and this sluggish demand for meat products translates into reduced coarse grain imports. Slow economic growth in developed countries reduces export earnings by developing countries, forcing them to reduce imports.

The current recession has been characterized by inordinately high real interest rates in the United States, resulting in increases in the value of the dollar. The strong dollar has made U.S. agricultural commodities relatively more expensive, contributing to our role as residual supplier.

U.S. agricultural export growth during the last decade was truly phenomenal. If this rate of growth were to continue, policymakers would face a completely different set of problems. However, export growth is slowing, and the underlying forces suggest that recovery is not imminent.

The export growth of the 1970's was fueled by credit, and some of the countries most responsible for our export growth are the countries with the most severe credit problems. Mexico, Poland, Romania, and Brazil were responsible for an important part of the growth—36 percent of the growth for corn exports, and 16 percent of the growth for wheat exports.

The Soviet Union and China were responsible for another significant portion—20 percent of the growth for corn and 60 percent of the growth for wheat. Export growth to these countries cannot be as large in the 1980's as it was in the 1970's. New markets must be developed and current markets expanded. Without contained export growth, grain stocks will continue to build and production controls will become the cornerstone of agriculture policy.

It is important to remember that policies aimed at curtailing production attack only a part of the problem. At least equal attention must be focused on improving demand.

The outlook for U.S. farm income for 1982 and 1983 is not bright. Even if the 1983 acreage reduction program is a big success, it will have little impact on grain prices before late in 1983.

Commodity prices continue to decline. Of the major commodities, only hog prices are above year-ago levels at the present time.

Reduced production in 1983 should force wheat and corn prices up to the reserve release levels. It is, however, important to remember that farmers must repay their Government loans when the grain is removed from the reserve, partially reducing cash receipts.

However, the relief for crop producers will probably coincide with increased pork production and lower livestock prices. The short-term outlook for agriculture calls for low net farm income through 1984.

Uncertainty surrounding U.S. agriculture increased significantly during the 1970's. The volatility of agricultural markets has made planning more difficult for individuals and companies involved in the agriculture industry. I believe, without qualification, that companies need the best information available when planning in this uncertain environment.

Farm income estimates are primarily an accounting function. If you can project quantity and prices accurately, it follows that you can make projections of farm income. For nearly all of this year, the USDA has taken the contradictory stance of forecasting price and quantity of nearly all major agricultural commodities while saying that they are unable to make meaningful, accurate projections of farm income.

No one will argue that net farm income is easy to forecast or that the conditions in agriculture remain static enough to insure that good forecasts do not turn out to be wrong. However, the evidence is clear that another dismal year for farm income in 1982 was apparent long before the USDA's recent estimate.

Over the course of the past year—August 1981 to August 1982—our estimates of 1982 net farm income have averaged 417.87 billion. Clearly, under the current circumstances, accurate and useful farm income forecasting is possible.

Perhaps more importantly, USDA assessment of the farm income situation was relatively accurate. At last year's USDA Agriculture Outlook Conference, USDA officials reported that in 1982, net cash income would probably decline $1 billion to $3 billion from 1981 levels, and the decline in net farm income would be slightly larger. These year-to-year changes in the financial situation in agriculture will probably be very realistic.

In summary, there are inaccuracies in any type of forecasting, and that is especially true in an industry that is markedly influenced by outside, unpredictable factors such as the weather. However, the need for information and projections based on the best available data is increased Since the USDA provides price and quantity forecasts, it is a logical extension for them to provide forecasts of farm income.

Thank you.

[The prepared statement of Mr. Pottorff appears at the conclusion of the hearing.]

Mr. Glickman. Thank you very much, Mr. Pottorff. I just want to ask a couple of questions.

Mr. Ballard states on page 7, "We believe that the low eligibility for Government support programs will result in the respective crops' price support levels proving to be ineffective floors," which I think has a relatively bearish tone to it in terms of crop prices next year.

Would the rest of you agree with his statement? What he is basically saying is the farm program is not going to do very much in terms of reducing acreage and getting prices up.

Anybody else wish to comment on that?

Mr. Pottorff. I would agree with that wholeheartedly. I think that when you have a program in which as much as 70 to 75 percent of grain is ineligible for any type of price support, you have to view that price support as ineffective. The farmers that did not comply with the program and are ineligible for the CCC loan, for instance, and are required to market their grain in order to meet current financial obligations, will have to sell on a depressed market.

Mr. Glickman. So in terms of the effect of the 1983 farm program, the tone is it is not going to have much of a positive effect in terms of removing grain from the market?

Mr. Pottorff. I was commenting on the 1982 program, and the impact that will have at the present time.

Mr. Glickman. I am sorry. 1982 for 1983 is what I was talking about.

Mr. Melichar, do you agree with that statement?

Mr. Melichar. I have no firsthand information or basis to comment on that.

Mr. Glickman. Let me ask you this question.

I think in Mr. Pottorff's statement, or it may be in Mr. Ballard's, you said we have to deal more with the supply and demand issue. Do you really believe that we have the markets capable in this world of absorbing very much of this enormous additional quantity of grain that we have in terms of current oversupplies or future production?

I mean, is it realistic to think that we can significantly increase the price of grain by increasing our exports? Is there that much out there to be picked up, is what I am asking.

Mr. **Ballard**. Mr. Chairman, I believe that the central part of this problem is on the supply side; that the agriculture situation is perhaps in a situation where we are now in excess capacity on the crop sector, in particular, and that there are necessary steps that must be taken to somehow get a better handle on that side.

Mr. **Glickman**. So you would say the supply side is where we ought to be pushing our efforts, rather than the demand side?

Mr. **Ballard**. They both deserve attention.

Mr. **Glickman**. But short term?

Mr. **Ballard**. Short term, it would require probably a correction on the supply side.

Mr. **Glickman**. Then I would like to ask, finally, Mr. Melichar, the implication from your statement to me was that things are not as bad as they seem. Did I misread you?

Mr. **Melichar**. I think to some extent you did. For instance, I was trying to point out things are not as bad as they were in the thirties, which is an impression that one gets from articles in newspapers and other media.

By 1933, when operators' total farm income in 1982 dollars was the same as this year's, the farm sector had gone through more than a decade of very low income, including many years of negative returns to capital.

Perhaps 10 years from now, if the present situation were to continue that long, the financial situation would be comparable. The current situation, may be more comparable to the early twenties. Farming had undergone an expansion of production and a credit increase associated with World War I, and then commodity prices collapsed.

I have looked at that, comparison, and found that the collapse in commodity prices in 1921 was steeper and larger than what we have had since 1979. But that episode is a better analogy than the bottom of the Great Depression.

Mr. **Glickman**. I thought you did say that things are now as good as they were in the 1950's?

Mr. **Melichar**. The level of the income return to capital is about the same as in the midfifties, which was not a very profitable or happy time for agriculture. There was about the same sort of feeling among farmers then as there is now.

Furthermore, the income of the seventies was quite large, and farm families have built up a level of consumption based on that recent much higher income. This makes the current income level seem lower.

Mr. **Glickman**. Mr. Stenholm?

Mr. **Stenholm**. I want to pursue the last line of questioning by Mr. Glickman.

I still hear you saying, Mr. Melichar, that things are not as bad today, and I believe most of the other testimony indicated that things are a little worse than what you are contending.

I am confused by your return on capital, your definition of return on capital.

Perhaps you would educate me. We talk about assets, net assets, of agricultural industry today—$1 trillion, roughly, in excess—debt, $200 billion, of which most economists say that is a pretty good balance sheet.

In assets over liabilities, $800 billion. Yet we come back to the $19 billion net farm income, which is a pitiful net return on equity.

Apparently you have a different definition of capital. When I think in terms of capital, I think of your assets minus your liabilities, your net equity, of which most other industries report—Forbes magazine comes to mind when they report the Fortune 500—$19 billion in net return on $800 billion in assets is not too good a return, is it?

Mr. MELICHAR. Well, if you look at it that way, my statement shows that the farm financial situation is even worse than you are contending.

What I pointed out is that $19 billion is the total that operators are getting paid for all of their labor, and management work and their return on their equity combined.

But, as shown in the next-to-last column in table 5, out of that $19 billion, I estimate that only $7.5 billion is the return to the operators' equity, and that works out to about a 1 percent return on the $800 billion of equity to which you referred.

But also, if you look at the same column, in most years of the 1920's and the first 4 years of the 1930's the returns to equity are negative. So, while the current positive $7.5 billion is only about a 1 percent return on equity, the comparison with the depression years is still a bad one, because then there was no return at all. You had negative numbers in 9 of the 10 years of the 1920's and that was before the depression started. After experiencing that whole decade of miserable, negative returns, farming was hit with even larger negative numbers through 1933.

Mr. STENHOLM. I guess we did misunderstand. What you were saying is that for anyone to contend that we are worse off today than we were in the depression, you are contending that is not an accurate statement? But you are agreeing that the net return on equity in agriculture is much, much lower than most other industry?

Mr. MELICHAR. Yes, that is true at the present time, certainly. In some years of the seventies, there were very good returns.

Mr. MARLENEE. Would you yield?

Mr. STENHOLM. Yes.

Mr. MARLENEE. If the gentleman would yield for a question at the witness table, Mr. Melichar, would you define equity capital as you see it? In chart 1, you have income return to operators' equity capital. What is equity capital?

Mr. MELICHAR. The market value of the assets minus the outstanding debt, roughly $1 trillion in assets minus $200 billion of debt.

Mr. MARLENEE. All assets?

Mr. MELICHAR. On these charts I am including all assets, including operators' houses.

Mr. MARLENEE. Land values?

Mr. Melichar. Yes, sir. Stored crops, livestock.

Mr. Marlenee. Equipment?

Mr. Melichar. Machinery; right.

Mr. Marlenee. And what I am trying to arrive at is the difference here. Your statement of comparisons of labor has greatly decreased, the contribution to labor has greatly decreased, but that has been replaced by equipment, has it not?

Mr. Melichar. Yes. In fact, what I am pointing out, we are very familiar with—capital has been substituted for labor in agricultural production.

Now, if you only look at the total return to labor, management and capital, you have the equivalent of another industry, instead of reporting their profits to stockholders, simply reporting the total of their wages, salaries and profits as one sum, without dividing it up. The USDA, in estimates published annually, does divide this sum up by valuing the labor and management at the rates for which you can obtain farm labor and management in the market, and what is left is the estimated return to capital.

Mr. Marlenee. It would seem to me it would be important there would be more capital return to investment if you are going to replace the equipment cost for labor costs; naturally, it will look better. I think it is prejudiced somewhat.

Mr. Melichar. The largest part of the capital in use, the value of the assets, is the real estate, and the market value of that will depend on what sort of return it is earning over a period of years.

Mr. Marlenee. I don't know how they compare. How does real estate—I yield back to the gentleman here; I am sorry for taking so much of his time.

Mr. Glickman. The gentleman is recognized for an additional 3 minutes.

Mr. Stenholm. I would like to get some of the other panelists, if you have something to offer on these numbers, but my line of questioning, and I appreciate the gentleman from Montana participating in this, because we continue to have those that suggest that those of us who utilize the return on equity figures of 1982 at being less than 1 percent, when you take a simple calculation of assets minus liabilities, and it figures out about 1 percent, you compare that for the 1970's, you have got a 4.4 percent return; for the 1960's, a 3.4 percent; 1950's, a 3.0; 1940's, 6.9 percent, when you make the calculations based on the figures that you have given us; yet we have a continuous argument that comes back that really we are not as bad off as we say we are; really that agriculture, as an industry, is not as sick as what some of us who happen to represent agricultural districts would like for people to believe.

Are we wrong? Is agriculture more healthy, or is it not?

Mr. Irwin. I guess I would suggest one additional thing here. If you were looking at those 3 and 4 percent returns in the midseventies, that was the current income return against those assets. You will recall that land price was also appreciating during much of this period. If you happened to be a landowner on the property you operated, you were getting some capital gain return.

If you look at the last 2 years, the real value of land has been going down. So if you did a total return calculation back in the seventies, you would be adding on something for appreciation as an unrealized gain.

If you were doing the calculation the last couple of years, you would be subtracting something off from the 1 percent. I think in that sense they really can be worse off.

Mr. STENHOLM. Any comments from any of the additional panelists on this subject?

Mr. BOWERSOX. Mr. Stenholm, I am not an economist, so I won't attempt to describe for you the meaning of the various figures, but I think clearly the panelists here would agree there is stress in agriculture; there is a problem with agricultural income being too low, with depressed commodity prices. I think there is a consensus on this.

I think the difficulty arises when there are comparisons to the thirties. I gather from Mr. Melichar's testimony that he would caution against drawing those direct parallels. With regard to the statement that there is stress in the agricultural economy right now, that times are difficult, I think there is general agreement.

Mr. STENHOLM. I guess that is my problem; I am not an economist, and I have difficulty asking the correct questions. But looking at the chart at the back of the room, we see the declining figures for net farm income, beginning in 1979. If we put other industry up in a similar framework of what those figures represent, would we see the same for other industries that we do for agriculture, Mr. Melichar?

Mr. MELICHAR. I am not familiar with income trends of other industries. But I don't believe there has been that large a decline, in constant dollars, in total corporate profits. There has been a very large decline in net farm income, whether you look at the total that includes the labor income or just at the return to the capital.

As I said, if you look at a short period, the amount of labor does not change. So, if you have the total income return dropping, and if that same amount of labor is paid a wage which has not dropped, then you get an even bigger percentage decline in the return of capital.

As I pointed out, if you look at return to equity capital, you find a larger percentage drop since 1979 than in operators' net farm income.

Given the large decline in the return to capital, and in view of the past relationship between that return and land prices, one really has to fear for land values, and I am not at all surprised that they reacted. A 1-percent rate of return to current land values, if it were to persist, would not support them at anywhere near their current level.

So, for the longer run financial health of the sector which depends so heavily on its real estate values, you would be looking for resumption of the growth of farm income and of the return to that capital.

Mr. STENHOLM. Along that line, if you were a banker, you would be very nervous, would you not, with the $200 billion in debts built up, based on land values that have clearly gone way too high, based on the earnings we are now seeing. If, in fact, you see an adjustment in land values or would see an adjustment, we could really have some severe financial problems in agriculture, could we not?

Mr. MELICHAR. I think land values will follow the trend that income takes, and the banker will be thinking about both income and land values.

As far as most local rural bankers are concerned, in the longer term their enterprise is in the same boat as the major activity of the area in which they do business. If agriculture prospers, they will prosper, and if it doesn't, then they won't either.

In the twenties, we had an extreme example of that. Before the Depression ever started, between 1920 and 1929, 6,000 banks in the United States failed. Almost all of them were in rural areas. The number of banks in the United States went from 30,000 in 1920 to 24,000 by 1929.

Mr. STENHOLM. Thank you.

Mr. GLICKMAN. Mr. Marlenee?

Mr. MARLENEE. Thank you, Mr. Chairman.

Mr. Bowersox, on page 4, at the end of the section, Farm Financial Conditions, you make the statement, "Hence," and I quote, "now is an appropriate time to review the record of recent financial performance of farmers in meeting their loan obligations to the farm credit system."

Am I to take that as a statement of policy or a re-evaluation of policy in lending?

Mr. BOWERSOX. That is an introduction to the following material. No, sir, I don't think it should be taken as a re-evaluation of policy in lending. That is merely introductionary language to the following report of credit conditions as a result of our quarterly credit monitoring. We have been monitoring the situation throughout the Farm Credit System on a quarterly basis to determine loan repayment rates and delinquencies, and so on. We have done this so that we can provide this information to our policymakers throughout the Farm Credit System and share this information with the administration and the Congress.

Mr. MARLENEE. Well, all right, then, you are saying it is time to review the financial performance in regard to this material that will follow, instead of that you will be taking——

Mr. BOWERSOX. Yes, sir.

Mr. MARLENEE. Then, going into that, the credit state is, you say, these conditions have inevitably translated into increased repayment difficulty. In other words, you have seen an escalation of repayment or arrears situations where the people were either in default or had not met their obligation which has resulted, I assume, in a slide in land values. Is that correct?

Mr. BOWERSOX. I would defer to George Irwin, our economist.

Mr. IRWIN. Well, the first sign of repayment difficulty is people who have to tighten up but still do make their payments. That is the most common kind of situation we have gotten in until recently. In the text, we have presented a whole series of statistics which reflect what kind of additional problems are there. The first thing that happened is that loan growth slowed down. That obviously tells us land is——

Mr. MARLENEE. I am getting at a break point. We have seen land values soften as a result of the repayment difficulties experienced by farmers. They can't service the debt they have.

Mr. IRWIN. That is a looking-ahead sense. Any current transaction in the land market is based on whether it will figure out on paper in the future. I don't think repayment difficulties on outstanding loans is necessarily reflected in this situation.

Mr. MARLENEE. Have liquidations affected land values?

Mr. IRWIN. I don't think currently. If you look at the land bank's statistics through the first half of 1982, you have something like two-tenths of 1 percent of loans in the process of liquidation, just a few in any given area of the country.

I think that you are in the same situation perhaps as you were with commodities; that we see a lack of buyers interested right now.

In connection with your question, and also Mr. Stenholm's question, I might note that we included a few figures which provide an additional dimension to this situation. We have been talking here this morning about the averages across the farm sector. As a matter of fact, I believe it is around 44 percent of the 2.4 million farmers don't have any debt at all, and something like 86 percent of the landlords don't have any debt at all.

There are a group of people in farming with equity and another group of people with big problems. You need to look at the $100,000-and-up sales of farms.

Mr. MARLENEE. Are you talking about landholders, or are you talking about operating farmers?

Mr. IRWIN. Well, I had a little of both in the statistics. The point is, a substantial portion in each category have a lot of debt. Another portion doesn't have much at all. And that means you have people there who have the capacity to acquire land anytime they think it has reached the right level of bargain. They are not in the market right now.

The other thing you don't have right now is investors interested strictly from the viewpoint of protecting themselves from future inflation.

Mr. MARLENEE. Can we go through another year of depressed prices and economic difficulties, repayment difficulties, without seeing some large-scale foreclosures or defaults on loans?

Mr. IRWIN. Well, there will be an increase in number. We are starting from an extremely low level, and we think that at least for the Farm Credit System there will not be very many.

I think the thing you have to recognize, though, is that in certain areas of the country, there is significant participation by Farmers Home Administration in financing the farm sector.

By definition, they are taking on the people who are in weaker situations to begin with. So, if some of our borrowers are getting in trouble, it is significant, probably larger numbers theirs are. It may well be that the servicing practices that they follow would be the most important factor in dealing with this situation.

Mr. MARLENEE. That still does not answer my question. I asked if we could go through another year without seeing the situation exacerbate?

Mr. IRWIN. No, we will see increases. I think there is no doubt about that.

Mr. MARLENEE. In 2 years it would be worse?

Mr. IRWIN. It can't be otherwise, I don't think.

Mr. MARLENEE. Thank you.

Mr. GLICKMAN. Mr. Stenholm, did you want to ask a final question?

Mr. STENHOLM. Mr. Ballard, in your statement you say there are undeniably problems associated with USDA farm income estimates. However, we have found it to be a very useful gauge of the health of the farming economy. We, therefore, believe that with monthly farm income estimates, Government agencies are better able to administer the programs that Congress has legislated in a manner consistent with the intent of Congress.

I take it by that, you support H.R. 6177.

Mr. BALLARD. That is correct.

Mr. STENHOLM. I will poll the rest of the panel.

Do you support H.R. 6177? Do you believe that information that would be provided under this legislation would be helpful, harmful, or are you neutral?

Mr. POTTORFF. I support the legislation. I think it would be helpful.

Mr. MELICHAR. Speaking as an individual, because the Board of Governors did not look at this bill, I think it is a good bill on the whole; it has some good features.

First of all, I would disagree with Mr. Lesher's statement that these data have no use. I think there is a need for some current aggregate statistics that reflect the general condition of the sector or industry, particularly by persons working at the national level.

Second, I think the bill is correct in calling for estimates of annual income rather than quarterly income, which has little meaning in most agricultural analysis.

Third, I think it properly calls for frequent revisions of the estimate during the course of the year. At the beginning of the year, an estimate could be made that would necessarily have to reflect the underlying fundamental conditions while using average values for ongoing trends and for factors such as the weather. Then, as the year progresses, the impact of deviation from those averages, plus new developments, would be reflected in progressive revisions of the estimates.

I believe farmers and other users of the data could readily understand that process. If in a certain month something has happened—perhaps it rained more than it should have, or it did not rain—they would see the estimate very quickly revised to reflect some judgment as to how that event has affected the annual outcome. They will understand that process, and if, at the end, the estimate in the fall differs greatly from the estimate made at the beginning of the year, they will have seen how this change evolved.

I was thinking it might be useful to a draw an analogy to estimates that we have had this year of our general inflation rate. At the beginning of the year, forecasters were generally estimating that the average inflation rate would be in the 9-percent area for the year. As the year progressed, almost every month there were small downward revisions of that until at the present time we have estimates being made that the inflation rate for the year as a whole will be about 5 to 6 percent.

There has been no great outcry about bad estimates because people could see how this change in the estimates evolved over the year.

Contrast that to the situation under the current USDA plan for not making an estimate, and then springing one in the fall. For the general inflation rate, the forecast at the beginning of the year would have been announced as 9 percent, and then nothing would have been said about it until September, and then suddenly it would be changed to 6 percent. Then people might well suspect that political influences or something were prompting that kind of change, as they did not see it evolving over time.

So I think that the current USDA forecasting strategy may be wrong.

The one thing in the bill that might be unwise is to require an estimate as early as October 15 of the previous year. I think at that time you are still getting some pretty important information on the size of the crop and on what the price during the main marketing period is actually going to be.

That data is still being collected at that time, and generally the USDA has had all it could do to get a firm idea of what has happened during the current year by the time of their outlook conference in November.

That conference might continue to be the best time in which to produce an estimate for the following year, because the forecast depends greatly on knowing pretty well what has happened in the year in progress.

Also, it does get you by the election date, is a second possible advantage.

I would think that the Secretary would want to get this income estimating process established on a basis that removes it from possible political influence, perhaps by assigning the responsibility to the ERS Administrator, to produce the estimate without telling him in advance what it is going to be, and that would improve its credibility at certain periods of the year.

Mr. STENHOLM. Mr. Irwin?

Mr. IRWIN. Like Mr. Melichar, I have no basis for making any official agency comment, but I will give a couple of personal thoughts.

Obviously, the best way to service credit problems is to avoid them when you make the original loan, and that obviously means that you have to look ahead 1, 2, 3, 5 years in various kinds of things to get a general picture. So, to some extent even longer term estimates, however accurate, are of value to us.

The second point is, I would not have any particular comment on how often one does these estimates except we need them when conditions change substantially.

Mr. STENHOLM. Thank you. I have no further questions. I will just say, as a closing comment, that I totally agree with the assessment of the panel in regard to the need for timely information, and it is not so much the accuracy, the difficulty—I agree with Dr. Lesher's assessment—it is also difficult to predict 1 month ahead of time what agricultural crops are going to do. But, at the same time, we find ourselves in this committee having to make policy decisions based on the best information at hand. When we don't have that, it leads us into some of the problems that we are now dealing with in the purpose of this hearing.

Mr. **GLICKMAN**. Thank you.

I want to thank the witnesses for staying through the lunch hour, and before the hearing is closed, Mr. Brown has some materials which he would like inserted in the record.

Without objection, they will be so included in the record.

If there are no further comments, the hearing is adjourned.

[Whereupon, at 1:15 p.m., the committee adjourned, to reconvene subject to the call of the Chair.]

[Copies of the following publications submitted by Hon. George E. Brown, Jr., are held in the committee file:]

The Production and Financial Structure of U.S. Farming, a Briefing Report, Economic Research Service, U.S. Department of Agriculture, December 1981;

Paid Acreage Diversion for 1983/1984 Crops: Consequences for Farm Prices and for the Federal Budget, staff working paper, Congressional Budget Office, prepared at the request of the Senate Budget Committee, June 24, 1982; and

Material from Data Resources, Agriculture Review, Summer 1982.

[The opening statement of Hon. Brown and prepared statements follow:]

OPENING STATEMENT OF
THE HONORABLE GEORGE E. BROWN, JR.
HEARING ON THE CURRENT STATUS OF THE FARM ECONOMY
COMMITTEE ON AGRICULTURE
SEPTEMBER 28, 1982

I would like to commend the Chairman, the Honorable E (Kika) de la Garza for scheduling before the election recess this hearing on the economic state of U.S. agriculture. Such a hearing is particularly timely because it is unrealistic to expect any real or sustained economic recovery in America until profitability returns to agriculture. Agriculture and related food industries, afterall, account for about 20% of GNP and 22% of our nation's jobs. Agriculture creates new wealth using renewable resources, and when it is depressed economically for several years running, the nation cannot help but suffer dire consequences as a result.

For many Members, myself included, this has been a frustrating and difficult session of Congress. We have repeatedly passed legislation encompassing sweeping and historic changes in economic policies and government spending priorities, yet many of our actions have been marginally effective responses to pressing economic forces which seem to be almost out of control. The guiding principles driving the economic legislation passed by this Congress are all laudable and generally supported by the populace. We have bowed to political pressure and generated the Administration's major economic goals in tax and budgetary legislation. Now many of our constituents are wondering why we were not able to better anticipate and safeguard against the bad economic news which continues to plague us--news such as corn prices stumbling toward $2.00, 10% unemployment, and persistently rising deficits. It is little wonder that many people fear that the good life has passed them by.

I hope this hearing will help sharpen the Agriculture Committee's understanding of the adjustments the agricultural sector is expected to undergo in getting through this current period of depressed prices. I have recently obtained and reviewed some material discussing several aspects of the economic health of agriculture. From all of these documents the message I get is that prospects for short-term improvement are slim and that the economic situation for many farmers, especially grain farmers, is already bleak or just plain disastrous. Let me share a few key points made in the documents which I'll be submitting for the record:

> *According to Data Resources, Inc, "A year ago, we described the farm income outlook as catastrophic, and since then it has only gotten worse...(net positive) cash flow has essentially disappeared..." (Summer 1982, Agriculture Review).
>
> *The August crop production report sent shock waves through the grain markets. The 8.3 billion bushel corn crop estimate was 500 million bushels above analysts' average expectations and over 300 million above the highest projection...Not only were the estimates of U.S. crops discouraging, production estimates were also raised (for several countries)." (DRI August 16, 1982 Weekly Agricultural Memo).

*"Recovery in the U.S. economy may be imminent, but the influence this recovery has on the agriculture sector may be extremely small. Without a significant reduction in interest rates and the value of the dollar in international markets, the agriculture economy will continue to suffer through a severe financial crisis. Real GNP growth of 2.5% to 4% will do little to influence this condition.

What little optimism developed over the livestock price improvement in the second quarter has quickly dissipated. The farm income slide this year will be severe, but will be partially masked by the higher inventory values. If anything, the agriculture situation has become more serious and more gloomy," (DRI summer review).

*According to a recent CBO Staff Working Paper, "Federal outlays on agricultural price support programs have surged upward in the last year. Commodity program outlays for feed grains, wheat, rice, and upland cotton are estimated at a record $9 billion in fiscal year 1982. This is up from the $2 billion spent in 1981 and well above average annual outlays in 1978-1981 of $3 billion."

It is also important during this hearing for the Department of Agriculture to bring us up-to-date regarding the Administration's view of the farm situation. The Members of this Committee are anxious to learn more about the Department's position and plans regarding the proper mix of future policies and programs. Of course, we hope the Department takes seriously the need to restore a semblance of economic viability and equity in the bottom-line for U.S. agricultural producers. Perhaps this hearing may also help clarify for the Department the views of this Committee on a number of matters of mutual concern.

One such matter is the responsibility of the Department of Agriculture to keep this Committee, and the general public, more fully and currently informed about the economic situation in the agricultural sector, including open and candid discussion of the Department's best estimates of emerging trends and anticipated shifts in the financial health of farm enterprises. I am disturbed by the frequently observed inclination of this Administration to withhold disturbing or politically embarrassing information about the effects of its policies. Everyone in this room today is well aware that the economic health of U.S. agriculture has deteriorated rapidly in the last several months. But how rapidly? What commodities and types of producers are most seriously affected? Are their problems caused by bad business decisions or by factors beyond their control? What options do financially strapped producers realistically have for overcoming current economic problems? If the Department cannot provide us on a timely basis with the best available answers to these questions, perhaps those USDA operations which are supposed to be dealing with these issues should be more critically scrutinized during future budget deliberations.

We must try this morning to convince the Department that this Committee can rationally handle the anxiety associated with negative statistical trends. I also want to strongly urge the Department to expand considerably its analytic activities in the areas of farm sector trends and the impacts of various policy options. Furthermore, the Department should more widely disseminate the results of its work.

For instance, my own appreciation of the status and economic forces impacting agriculture was enhanced significantly by a candid and insightful Briefing Report running nearly 100 pages which was prepared by the Economic Research Service last December for Assistant Secretary of Economics, Mr. William G. Lesher. This document includes extensive statistical information not otherwise available. It also perceptively addresses a number of crucial farm policy issues with repeated reference to pragmatic policy options. Consider the following excerpts from the report:

> *"With inflation and unstable farm prices, the current net return to agricultural assets has remained low and unstable at about 4 percent. Current interest and debt payment obligations associated with debt/asset ratios above 20 percent thus result in negative cash flows for most farms with 1980 or 1981 prices. Farms with higher debt/asset ratios must continually refinance their debts when faced with unfavorable prices or yields. Thus, a few badly-spaced years of low return can bring even a well-established farm to a position of forced liquidation."
>
> *"In the absence of public and private measures to stabilize farm income or cash flow, farms could not safely assume debt/asset ratios of more than 20 percent with 1980 and 1981 prices."
>
> *"Many farmers find it necessary to "monetize" their capital gains return by borrowing against the increased value of their assets. But this tends to exacerbate their vulnerability to income swings by increasing their degree of financial leverage."
>
> *The Federal Government will likely play a smaller role in providing credit to farmers as a result of the reorientation of the Farmers Home Administration away from emergency lending and toward supervised

lending to family farms. Consequently, the private sector (financial institutions and farmers) will bear a much larger share of the risk management burden. This will likely require some innovation and readjustment on the part of all participants, i.e., innovative financing, income stabilization, or insurance plans, etc.

*The larger commercial farms--those that produce most of the farm output--owe the most debt, have the highest debt/asset ratios and degrees of financial leverage, and receive relatively little of their income from nonfarm sources. Thus, the larger commercial farms are the most vulnerable to instability of farm prices and increases in input costs and interest rates.

*As a consequence of favorable debt/asset ratios, but unfavorable degrees of financial leverage, farms may change ownership because of cash flow problems but they have not traditionally gone through bankruptcy or foreclosure proceedings because of their accumulated high levels of unrealized capital gains.

*If nominal capital gains were severely reduced due to a change in the expected level or growth of net returns to farm assets, farms with debt/asset ratios or degrees of financial leverage above the average of the sector would find themselves severely financially pressed.

*A full owner-operated Illinois corn-soybean farm would need 71 percent equity to meet expenses, including interest payments, if prices received improved ten percent over 1980 (Table 14). If prices were ten percent off from 1980, the same Illinois operator would need 85 percent equity. As another example, the Montana spring wheat farm would require 85 percent equity to meet all expenses with the same price increase. With a price decrease, a 99 percent equity level would be required.

*The combination of government program effects, inflation effects, and tax sheltering effects have all reinforced the trend toward high asset values relative to current cash returns in farming and contributed to the apparently depressed current incomes in the farm sector. The critical link in the chain is inflation. If there were no inflation then the adverse side effects of tax treatment and stabilization programs on current incomes and asset values could not occur. Note, however, that farmland values could actually decline if any of the following were to occur as a result of policy changes:

- a sustained decline in the level of current returns,
- a change of the expectation of future growth in returns to an expectation of no growth, or
- a reduction of potential returns from tax sheltering by control of inflation in the general economy.

The last section of this report is entitled "A Glimpse at the Future." I think the Agriculture Committee would find it very useful in understanding some of the underlying economic causes of our current farm policy dilemma. This section of the report follows:

A GLIMPSE AT THE FUTURE

The total number of farms in the United States will decline by a quarter from 2.4 million in 1980 to 2.1 million in 1990 and to 1.75 million in 2000 if present trends continue. The farms will probably be arranged in a bimodal distribution—a large proportion of small farms, an ever-increasing proportion of large farms, and a declining proportion of medium-size farms. Small farms (gross sales of less than $20,000) will constitute about 50 percent of all farms in 2000, while the proportion of large farms (gross sales of more than $100,000) will increase to 32 percent (Table 16).

Table 16. Projections of Farm Numbers by Sales Class 1980, 1985, 1990, and 2000

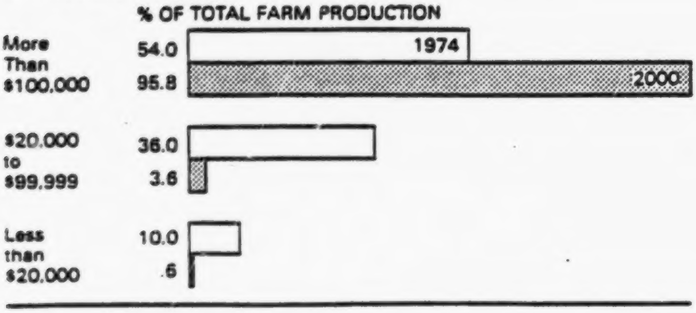
Sales Class 1/	1980	1985	1990	2000
		1000 farms		
Less than $20,000	1,481	1,416	1,193	889
$20,000 - $99,999	665	563	450	301
$100,000 - $499,999	264	290	358	344
$500,000 and over	18	51	88	217
All farms	2,428	2,320	2,090	1,750

1/ Assuming progressive moderation of inflation: 8 percent until 1985, 7 percent from 1985-1990, 6 percent from 1990-1995, and 5 percent from 1995-2000.

Production will be concentrated on the larger farms—farms with over $100,000 in sales will account for over 95 percent of production. The 68 percent of farms with less than $100,000 in sales will account for only 5 percent of production (Chart 12).

Chart 12.

CONCENTRATION OF FARM PRODUCTION, BY SALES CLASS



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Policy Dilemmas

If inflation is not controlled the structure of the farm sector can change rapidly away from the traditional owner-operator system. But, policies to control inflation may have severe financial impacts on the farms that currently make up the sector. A tight monetary policy, including high interest rates, is a major tool in current efforts to mitigate past inflationary trends. Assuming that these efforts are successful, and indeed result in reducing future rates of inflation, one effect would be to stabilize or possibly reduce farmland values. Such developments would be in sharp contrast with the substantial increases in farm asset values of the past decade, and could conceivably result in an actual decline in the value of farm assets controlled by individual farmers. Their individual abilities to withstand these potential declines without experiencing forced liquidation would be directly related to their debt-equity positions and amounts of current income which could be used to service their outstanding debt.

Highly Leveraged Farms—Highly leveraged farmers who have invested heavily in cost-reducing technologies, or who have used increased land values to finance expansion during the period of rapidly escalating land values of the 1970's would be the most severely impacted by a policy of containing inflation through the imposition of tight money and high interest rates. This group of farmers would face severe cash flow problems, as they would be increasingly unable to use land price increases to refinance existing debt; and low current commercial rates of return would not generate sufficient funds to meet their debt obligations. Farmers in this category who do not have substantial nonfarm income would run a high risk of forced liquidation of at least part of their farms. These farms tend to be the most productive farms, and use the most cost-reducing capital investments (which have improved their economic rates of return but worsened their cash flow positions).

High Equity Farms—Farmers and other farmland owners with high equity positions will also be affected by tight money, high interest rate policies. Individuals in this group may suffer declines in their levels of wealth. However, they will not have cash flow problems of the severity of their highly leveraged neighbors, and should be reasonable risks to remain solvent. These farms tend not to have adopted the most effective cost-reducing technologies (which has worsened their economic rates of return but improved their cash flow positions). Thus, they may have higher unit costs of production.

Instability and Productivity— It is not clear whether a revaluation of farm assets would mean lower productive capacity or productivity of the farm sector. Even if bankruptcies occurred, most all of the land and capital resources would stay in farm production—although with different owners and with lower values. However, with continued instability of net farm incomes, farmers might need to adopt a more debt-averse posture and delay or restrict the adoption of capital intensive new technologies, thus affecting productivity of the farm sector.

Mr. Chairman, as an attachment to my testimony I am submitting this report to the Committee and ask that it be included in the record.

Within a week or so, most Members of Congress will return to their Districts and resume their campaigns for reelection. When addressing agricultural constituents, most Members will have a difficult time painting a rosy picture for the future. Blame for agriculture's economic problems will be spread widely, both geographically and politically, and many observers will agree it is time for U.S. agriculture to get tough and fight back. But against whom? And who shall choose the weapons? For good reason, I suspect that most Members of Congress will be uncharacteristically reserved in laying out specific agricultural policy solutions that they suggest the 98th Congress pursue. The problems facing the farm sector are complex and interrelated. It has been said many times before, but bears repeating, that there are no simple answers or easy solutions to the problems of U.S. agriculture.

I hope new and more effective farm policies and programs will emerge in the next session. We need to break away from the excessively costly and ineffective farm income support strategies of the past. Future farm programs should be built, first and foremost, upon sound and efficient patterns of natural resource use. Second, our programs should be designed to respond quickly and realistically to changing global patterns of trade in agricultural commodities since these changes are rarely predictable and almost always beyond the control of the U.S.

Programs administered to alter the level of production of raw agricultural commodities should foster conserving and efficient patterns of resource use. Many options to work toward this goal have been discussed including a targeted diversion program and various forms of cross-compliance. We should try also to build into our farm programs, especially our income support programs, more incentives for farmers to enhance profitability through lowering variable production costs. Land retirement programs applied across the board without regard to the productivity of the land or alternative resource use patterns are simply no longer affordable or defensible in most cases. We need more dynamic and flexible policy responses when production levels are rapidly contracting or expanding. I think we also should pay more attention to the agricultural research system's priorities and methods of action since it is becoming increasingly clear that the attitude "technology for technology's sake" is no longer affordable or wise. We need to develop a systems approach to public agricultural research, concentrating upon the development of new technologies consciously designed to contribute simultaneously to the solution of many problems spanning economics, conservation, and efficiency.

These policy issues raise difficult questions and will require sophisticated analysis to evaluate properly. Even with perfect knowledge of future trends and the factors shaping them, this Committee would still face painful political choices. I hope that this hearing will help the Committee and the Department to better understand the nature of the economic problems in agriculture. I hope it also will establish a better mutual appreciation of the need for the Congress and Department of Agriculture to cooperate in an expanded dialogue on farm policy options for the future. Mr. Chairman, I would like to submit for the record and the Committee's review some additional material addressing the economic status of the farm economy.

Abstract and one table from:

"Farm Price and Income Support Programs: Background Information"

Prepared by the Congressional Research Service, May 1982. (IP82-722).

ABSTRACT

A major objective of U.S. farm policy since the late 1920s has been to encourage the production of adequate supplies of food and fiber so as to maintain reasonable prices for consumers, while at the same time, assuring farmers a fair return on their investment. Toward this aim, the Federal Government has operated a series of commodity programs designed to stabilize supplies and support farm prices and producers' incomes. Although commodity programs have been substantially revised over the years in response to changing economic conditions, many current commodity programs retain features that were initiated during the 1930s. These farm programs use a variety of methods to support prices and stabilize supplies. Four measures commonly employed are direct payments, nonrecourse loans, acreage reductions, and export promotion. The latest revision of authority for farm programs occurred in late 1981 with the enactment of the Agriculture and Food Act of 1981. This legislation provides the current framework for commodity, price and farm income support programs through 1985.

TABLE 1. CCC Realized Losses on Commodity Price and Income Support Programs, October 17, 1933 Through September 30, 1981.

Commodity or Item	Net Loss on Commodity Inventory and Loan Operations	Producer Payments a/	Grain Reserve and Reseal Loan Storage Expenses	Other b/	Net Realized Loss
Feed Grains	4,601,403,941	18,660,103,928	1,387,466,184	575,662,563	25,224,636,616
Corn (and products)	3,121,675,005	14,644,828,312	1,100,518,215	442,660,613	19,309,682,145
Sorghum (and products)	1,008,055,795	3,189,063,038	87,439,524	69,922,451	4,354,480,808
Barley	226,414,950	826,212,578	84,742,856	30,447,458	1,167,817,842
Oats (and products)	212,344,550		112,809,336	28,257,312	353,411,198
Rye (and products)	32,913,641		1,956,253	4,374,729	39,244,623
Wheat (and products)	2,929,341,665	5,373,368,486	542,297,233	1,765,015,914	10,610,023,298
Rice (and products)	410,585,537	195,308,277	127,530	312,410,077	918,431,421
Tobacco	57,070,756 c/			220,146,015	277,216,771
Cotton, Extra Long Staple	20,357,182	29,331,916			49,689,098
Cotton, Upland	2,320,502,159	8,587,295,133		833,574,119	11,741,371,411
Dairy Products	6,790,070,529			436,028,896	7,226,099,425
Oils & Oilseeds	1,605,047,231		39,716,616	93,725,329	1,738,489,176
Wool	115,955,626				115,955,626
Sugar & Sugar Beets	50,335,569 d/	237,533,765	4,771,088		191,969,284
Other	904,174,132			742,363	904,916,495
Total Commodity Programs	19,704,773,189	34,082,941,505	1,974,378,651	4,237,305,276	59,999,398,621

a/ Represents cumulative transactions under payment programs for cotton, feed grains, rice, sugar and wheat.

b/ Includes Emergency Feed Program, P.L. 40, 84th Congress; expenses of embargo of grain shipments to the Soviet Union, fees collected under CCC export credit assurance and guarantee programs; Special Milk Program for Children and export payments program.

c/ $17,235,857 of this amount is offset by interest income.

d/ Net gain realized by reselling sugar acquired under loan at a price higher than the acquisition cost.

Source Compiled from data on CCC commodity & related activities from October 1933 through September 1981, Report of Financial Condition and Operations of the CCC. September 30, 1981. pp. 18 & 19.

TABLE 2. CCC Realized Losses or Gains* on Commodity Price and Income Support Programs, Fiscal Year 1981

Commodity or Item	Net Loss or Gain* on Commodity Inventory and Loan Operations	Producer Payments a/	Grain Reserve Storage Expense	Other b/	Net Realized Losses or Gains*
Feed Grains	595,737,873	403,127,834	2,830,675* c/	76,226,358	572,261,390
Corn (and products)	83,196,251	274,908,286	1,109,464* c/	76,277,872	433,272,945
Sorghum (and products)	8,730,196	97,610,072	4,469,181* c/	67,288*	101,803,799
Barley	1,703,123	30,609,476	1,447,928	11,331	33,771,858
Oats (and products)	2,229,382		1,300,042	3,958	3,593,382
Rye (and products)	181,079*			485	180,594*
Wheat (and products)	59,533,815	320,535,195	89,661,409	44,752,731	514,483,150
Rice (and products)	1,398,554*	2,418,381	5,570	773,176*	252,221
Tobacco				49,887*	49,887*
Cotton, Extra Long Staple	28,344				28,344
Cotton, Upland	14,733*	303,903,705		867,305	304,756,277
Dairy Products	764,595,611			14,239*	764,581,372
Oils & Oilseeds	2,118,763			16,721,323	18,840,086
Wool					
Sugar	26,455,868*	3,742		140,680* d/	26,592,806*
Other	31,905,573			635,913*	31,269,660
Total Commodity Programs	926,050,824	1,029,988,857	86,836,304	136,953,822	2,179,829,807

a/ Represents disaster payments and adjustments for prior year programs.

b/ Includes loan and other charge-offs, and $127,868,916 net expenses incurred under the embargo on grain shipments to the Soviet Union.

c/ Denotes recovery of prior years' activities.

d/ Includes $70,380 in Extended Loan storage payments.

Source: Compiled from data on CCC commodity & related activities for FY81, Report of Financial Condition and Operations of the CCC, p. 17.

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STATEMENT BY
WILLIAM G. LESHER
ASSISTANT SECRETARY FOR ECONOMICS
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON AGRICULTURE

September 28, 1982

Mr. Chairman and members of the Committee, I want to thank you for this opportunity to appear here today and discuss with you the issue of forecasting and reporting farm income. I understand and appreciate your concern that a major responsibility of the Department of Agriculture is to provide a fair, accurate, and reliable assessment of economic conditions in the farm sector, including the outlook. We agree that this is a basic responsibility of the Department of Agriculture. However, we do not agree that mandatory reporting of net farm income forecasts, as required by H.R. 6177, is consistent with this objective. In fact, this requirement likely would detract from our ability to accurately describe economic conditions in the farm economy and not be in the interest of farmers. Thus, for the major reasons set forth below, we oppose enactment of H.R. 6177.

First, it is a gross oversimplification to suggest that the economic conditions of our diverse farm economy can be boiled down to a single number. At best, it is one indicator among many. Over time, as our farm economy has become increasingly integrated into the general economy, net farm income tells only a small part of the story. Requiring monthly forecasts of this particular indicator so far in advance would only serve to focus public attention on this single measure at the expense of a more basic understanding resulting from use of a whole set of measures.

Second, because of the extreme sensitivity of net farm income to small changes in either cash receipts or production expenses, estimates for past years are subject to substantial revisions and forecast errors are often very large. The extreme sensitivity of the net farm income statistic to small changes in receipts and expenses reduces its usefulness for accurately describing changes in the farm economy.

Third, farmers do not use forecasts of net farm income statistics and to my knowledge they are not seeking them. No individual farmers can tell you next month what his or her net farm income will be for 1983, and they do not expect the Department of Agriculture to be able to do so. What farmers do need for planning purposes is information concerning the outlook for the commodities they produce and some perspective on the cash income prospects for the year ahead. We recognize this need and are continuing to provide this information, including a regular update of the outlook for farm commodities and cash receipts.

It is not easy to describe economic conditions in the farm sector. Conditions vary widely depending upon regions, commodities produced, tenure, debt position, credit availability and many other factors. It is not possible for a single indicator to adequately reflect this diversity. To describe the general economy, we must look at many indicators such as GNP, per capita disposable income, exchange rates, unemployment rates, the money supply, the consumer price index, industrial production, auto sales, housing starts, and the like. I am sure the Committee is aware that while various agencies within the U.S. Government develop forecasts of these official indicators, they seldom are published, much less released monthly.

To focus on the level or the change in any one indicator would not be very meaningful and would be misleading. This is even more true for describing the economic situation for farmers since the farm sector is only a part of the overall economy and is becoming more integrated into the general economy. To describe economic conditions in the farm sector requires a long list of measures in addition to net farm income such as cash flow, farm equity, off farm income, returns on assets, farmland values, debt asset ratios, returns to operator-supplied factors, asset growth, changes in debts outstanding, prices received and paid by farmers, and productivity indexes. Even these indicators are averages and aggregates that mask the financial situation for individual farmers or groups of farmers.

Let me give you one current example of how misleading it can be to focus on a single indicator. In recent months there have been numerous reports in the press which suggest economic conditions in the farm sector are the worst since the great depression of the 1930's. They have arrived at this conclusion by misinterpreting USDA statistics on net farm income. In 1980 and 1981, net income from farming declined to about $20 billion from the recent peak of $32 billion in 1979. In nominal terms, the 1980 and 1981 net farm income levels were higher than 1976 and 1977; but after adjustment for inflation, deflated net farm income dropped to the lowest level since the early 1930's. However, the story does not end there. We must also point out that since the 1930's the number of farm operators has declined from over 6-1/2 million to less than 2-1/2 million. After adjusting for the decline in the number of farmers, net farm income per farm in 1981 will total over $10,000 and will be the fourth highest ever, compared with $450 in the early 1930's. Even after adjusting for inflation, real net income per farm is more than three times larger than in the 1930's.

Another major difference from the 1930's is that in today's farm sector we have more part-time farmers and operators who receive most of their total income from off the farm. Currently, about half of our farmers sell less than $10,000 worth of farm products each year. These 1.2 million farms account for less than 5 percent of total sales of farm products. About one-fifth of our farmers sell less than $2,500 worth of farm products each year, equivalent to receipts from about 10 acres of corn. As you can see, it would be misleading to simply look at average income per farm, including all these very small farms, without considering their off-farm income. In recent years between 50 and 60 percent of the total income of farm operator families is received from off-farm sources. For the smallest farms, virtually all of their total income is from off the farm. Last year, total income per farm operator family was the second highest ever at over $26,000. After adjusting for inflation, real income per farm operator family last year was about the same as the early 1970's.

So far I have tried to illustrate the limitations of using the net farm income statistic to describe the economic conditions of the farm economy. Now I would like to focus on the sensitivity and variability of this statistic which I feel further reduces the usefulness of these projections for farmers and others.

It is important to keep in mind the difference between an estimate and forecast. An estimate is an approximate measure of an item usually derived by calculation from sample data. An estimate assumes that all events affecting the quantity measured have occurred. A forecast is a quantitative evaluation of future outcome based on current conditions or the assumption that certain conditions will prevail.

As you know, net farm income is the difference between gross farm income, which was recently estimated to have been around $161 billion in 1981, and production expenses, which are estimated to have been about $141 billion. This leaves net income before inventory adjustment at about $20 billion. By most statistical standards, a statistical estimate would be considered very accurate if it contained an error of 2 percent. Because of the uniqueness of net farm income, you can see that if gross income was underestimated by just 2 percent and production expenses were overestimated by 2 percent, the resulting error in net farm income would be 30 percent. This is the error potential for our historical estimates, not forecasts. The coefficient of variation on the 1981 farm production expenditures survey which is the basis for total expenses in the farm income accounts was 2.8 percent. This means that chances are only 2 out of 3 that the actual value of 1981 farm production expenses was within $3.9 billion of the estimated value of $141 billion.

We are unable to make firm estimates of the previous years' net farm income statistics until the annual production and price data are finalized and the results of the annual Farm Production Expenditure Survey become available. This means that the first estimate of the previous year's farm income data are usually completed in July of the following year. Currently, all 1982 farm income statistics are still forecasts, particularly the farm production expenses. As a result, 1982 income forecasts which have recently been released are subject to potentially large revisions when the first estimates for 1982 are published in July of next year, after the price and production data are finalized, and the survey results are tabulated. During the past several years for which we have data, the revisions from earlier forecasts to July estimates have averaged about 15 to 20 percent.

Because of the difficulty in providing accurate estimates of net farm income after the fact, for years past, you can easily begin to see our concerns about making early forecasts of net farm income for the years ahead. Forecasting the coming year's net farm income statistics three months before the year begins, as H.R. 6177 requires, would mean making forecasts on virtually no solid data. We would have to assume acreage planted, yields, crop and livestock production, economic conditions in the U.S. and abroad including exchange rates and interest rates, all commodity and input prices, even the weather. And because we would not know the current year's production expenses until July of the following year, we would not be able to use the current income forecaste as a starting point for our forecasts for the coming year.

Forecasts of net farm income require detailed forecasts of all the major commodities and inputs in the farm income account. Small changes in the forecasts for these key commodities can easily produce wide changes in the net income forecasts. For example, a 10 cent per bushel change in the corn price forecast would change corn receipts by over $400 million. A change in the cattle price forecast by $1 per hundredweight would result in a change of about $.5 billion in the net income outlook. The same is true for interest rates. A one percentage point change in the interest rate on all farm debt outstanding affects net farm income by about $2 billion.

Frankly, the dangers of these early forecasts seem to me to be quite substantial. The inability to accurately forecast net farm income is not necessarily a poor reflection on our analysts. No one else can do any better. It simply reflects a fact of life that we cannot predict with accuracy such events as weather, over which we have little or no control. While we can make early forecasts based on the many required assumptions, the question is, what is the value of these forecasts and how should they be interpreted. Granted that forecasts tend to become more accurate as the year progresses, there are still many months during the first half of the year when public debate would revolve around an unreliable and largely meaningless figure. Large forecast errors can result from trying to convey too much information too soon. This seriously erodes the usefulness of our farm income forecasts and causes users to question the integrity of the numbers.

Farmers cannot tell you what their net farm incomes will be a year in advance and it is unrealistic to believe that the Department can aggregate over 2.4 million farms into a single net income measure that is reliable. Farmers do not rely on net farm income forecasts for planning purposes, but instead they focus on prospects for the commodities they produce, the inputs they must purchase, including the availability and cost of credit. We are continuing to provide this information on a regular basis.

I am convinced that the best way to deal effectively with these problems and issues is to adhere to the strict and published schedule for reporting farm income that was announced in the April issue of Agricultural Outlook. That schedule calls for USDA to release its first estimate of the previous year's farm income statistics in July of the following year. This data, in combination with the first good estimate of the current year's crop production from the August crop report, will provide a good basis for making the first forecast of the farm income prospects for the current year in the September Agricultural Outlook. Actually, this reporting schedule is not substantially different from previous years. At times we have published annual farm income forecasts earlier in the year, but annual forecasts have never been published on a monthly basis.

The approach I have recommended is admittedly conservative. It is the best way I know to ensure that we will provide credible estimates as soon as we have the information on which to base them. The delayed reporting schedule will not remove all error, but it will minimize the problems, and I believe it will lead to better uses of these numbers based on reliable information rather than supposition.

Statement of Kim C. Bowersox, Director
Congressional and Public Affairs

and

George Irwin, Director
Economic Analysis Division

Farm Credit Administration

Mr. Chairman, my name is Kim C. Bowersox. I am Director of the Congressional and Public Affairs Division of the Farm Credit Administration, the independent Federal Agency that regulates and supervises the cooperatively owned Farm Credit System. I am joined today by George Irwin, Director of the Economic Analysis Division of the FCA. Our testimony will cover current agricultural income and credit conditions, a matter of much concern to all of us in this room. I would first like to provide some background information on the Farm Credit System and the Farm Credit Administration. Then Dr. Irwin will review the credit situation and the Farm Credit System response to it.

Farm Credit System

The cooperative Farm Credit System consists of federally chartered instrumentalities that operate under authorities contained in the Farm Credit Act of 1971 (P.L. 92-181) and other statutes, most notably the Farm Credit Act Amendments of 1980 (P.L. 96-592). The Farm Credit System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses that provide farmers and ranchers with services essential to their on-farm operating needs.

While the U.S. Government provided the initial funding for the various institutions of the Farm Credit System, this "seed capital" has since been repaid. The Farm Credit System is now entirely borrower owned and controlled. Even the costs of the Farm Credit Administration (FCA), the independent Federal Agency that examines and supervises this System, are assessed upon the banks it supervises; therefore, it is the System's borrowers and not the taxpayers who pay the expenses of the Farm Credit Administration.

The Farm Credit System obtains its loan funds primarily through the sale of securities in the national and international money markets. These securities are not guaranteed by the U.S. Government. They are sold through the System's Fiscal Agent in New York City.

The three agricultural credit systems that comprise the Farm Credit System are described below.

The 12 Federal land banks (FLBs) make loans ranging from 5 to 40 years through local Federal land bank associations (FLBAs). These loans must be secured by first liens on farm or rural real estate or their equivalency. Loans may be made for a variety of purposes, including the purchase of farms, farmland, and farm improvements; rural homes and real estate needed for farm-related businesses; the purchase of equipment, machinery, and livestock; refinancing existing mortgages and paying other debts; and financing other needs of the borrower.

The Federal intermediate credit banks (FICBs) provide loan funds to local production credit associations (PCAs) and discount the notes of eligible borrowers given to other financing institutions. The FICBs may also participate with production credit associations, commercial banks, and one another in making loans.

PCAs make loans with terms up to 10 years to farmers, ranchers, rural homeowners, and certain farm-related businesses. They also make loans with terms up to 15 years to producers and harvesters of aquatic products. Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair, or maintenance of rural homes, and other requirements of the borrowers.

The banks for cooperatives (BCs) serve agricultural, aquatic and rural electric cooperatives whose headquarters are within their respective districts. The BCs provide cooperatives with a complete credit service designed to fulfill their specialized needs. The banks for cooperatives make term loans for purposes such as constructing, remodeling, or expanding facilities, or for purchasing land, buildings, or equipment. Seasonal loans are made to finance current or seasonal assets.

The Central Bank for Cooperatives participates with the district banks in loans that exceed their individual lending limits. The BCs may also participate with one another and with other financing institutions in making loans.

The Federal Farm Credit Board is the top policymaking body for the Farm Credit Administration and the cooperative Farm Credit System. Members of the Federal Farm Credit Board, as those of all other boards in the System, serve on a part-time basis. Twelve members of the Board, one from each Farm Credit district, are appointed by the President of the United States with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A 13th member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

The Governor is the Farm Credit Administration's chief executive officer. He is appointed by and serves at the pleasure of the Federal Farm Credit Board. He is ultimately responsible for carrying out the policies of the Board by ensuring that the Farm Credit Administration supervises, examines, and regulates the Farm Credit System in the public interest. At the same time, each institution of the System is a user-owned and controlled cooperative association. A great deal of responsibility for directing and managing Farm Credit institutions is vested in member-elected boards of directors and their selected management. FCA supervision is designed to oversee the actions of the district boards to ensure sound management of the banks and associations. Operating decisions are decentralized within the System to the user level, as long as System objectives are respected and sound business is conducted.

Farm Financial Conditions

It is not news that there are economic problems in agriculture today. They are extremely widespread, covering virtually the entire spectrum of production agriculture, and they are serious. Net farm income last year was $25 billion -- about $5.5 billion of that is associated with an inventory buildup. The current thinking for 1982 hovers around $19 billion, including substantial advance payout anticipated under 1983 crop programs. These numbers compare with an all-time peak of $33 billion in 1973. In constant dollar terms, net farm income in 1982 could be about one-fifth what it was in 1973. Large crop supplies plus another record crop underway, high interest rates, and dampened domestic and foreign demand suggest 1983 will be another year of weak cash income, and it could take through 1984 to work out of the situation.

At first blush, Agriculture's aggregate balance sheet appears quite reassuring. Total agricultural debt at the end of 1982 will exceed $200 billion, an all-time high. But, total assets are probably in excess of a trillion dollars, despite weakened land prices during the past year. The debt-asset percentage is less than 17, which is very low in comparison with industry.

That reassuring first impression is terribly misleading, however. The ratio of total debt to farm income this year will likely be over 13:1 as compared with less that 3:1 in 1973. One indication of the weight of that debt burden is the fact that interest expenses in 1981 accounted for 14 percent of total production expenses. One must also recognize that far greater financial leverage is employed by the commercial sector of agriculture, and particularly the portion of farms with annual sales in excess of $100,000. Nearly 85 percent of these operators reported debt at the time of the January 1980 Agricultural Finance Survey, as opposed to about 54 percent of all farms. The balance sheets of these 234,000 farms averaged nearly $250,000 in debt, and a debt-to-asset percentage of 27 percent. These 10 percent of all farm operators carry 56 percent of the total farm operator debt. While it is true that these farms receive a very large proportion of total agricultural income, the heavy use of debt makes many of them particularly vulnerable to income fluctuations. Fortunately, smaller farms tend to carry a lighter burden of debt. The debt-to-asset ratio for farmers in the $40,000 to $100,000 sales category is 22 percent. That for farms with annual sales of $20,000 to $40,000 is 17.5 percent. Despite these differences, the current economic picture for both small and large farms tends to be a dim one.

It is well established that the income and financial outlook for farmers in 1983 and 1984 is a matter of serious concern. The prospect of a sustained 3- or 4-year decline in net farm income raises obvious questions about the ability of some farmers to maintain productive operations. Since 1979, overall prices received by farmers have incresed only 4.5 percent, while prices paid are up about 22 percent. In each of the past 2 years, the nominal gain in the price of agricultural assets has been less than the general rate of inflation, resulting in a decline in the real wealth position of agriculture. In 1981 alone, the purchasing power of farm assets decreased almost $12 billion. Fortunately, this drop was only about 1 percent. It stands, however, in marked contrast to the mid-1970s, when net operating returns were modest, but capital appreciation was large in both nominal and real terms.

The main basis for optimism in 1982 was the potential for a reduced world crop. That, of course, was dashed by a year that produced records in most major crops, drastically decreased prices, and an overhanging burden of carryover for at least the next 2 years.

Unfortunately, 1983 and 1984 offer no improvement in the income prospects. Further, a continuation of current conditions could make 1983 the fourth consecutive year of decreasing purchasing power of farm assets. The last such period was 1931-33.

Hence, now is an appropriate time to review the record of recent financial performance of farmers in meeting their loan obligations to the Farm Credit System, to review the results of our first two quarters of monitoring credit conditions during this difficult period, and to discuss plans for servicing credit under this environment.

Credit Status

These conditions have inevitably translated into increased repayment difficulty. However, our data through June 30 suggest that farmers have borne up remarkably well. We do expect financial pressures will continue for at least the next 18-24 months, and will inevitably force some of the more financially distressed farmers to discontinue operations. The Farm Credit System will work to keep this to the minimum, while remembering the need to maintain the financial health of the System in the best interests of all its farmer-owners.

The Farm Credit System was providing more loan funds in the middle of 1982 than at any other time in its history, and serving a near-record number of borrowers. The number of FLB loans on July 31 reached 663,849, which was 6.2 percent above a year earlier, with an aggregate amount of $49.6 billion. The number of PCA loans outstanding July 31 was 381,707 for $22.7 billion. An additional $900 million was outstanding from FICBs to other financial institutions. Growth in total System loans outstanding had been slowing throughout recent months. Recent loan experience thus suggests that farmers and their cooperatives have already tightened their belts somewhat, paying off existing short-term debts where possible and minimizing new borrowing. Further, overall performance of the loan portfolio has been generally acceptable through mid-1982, although recent credit reviews have shown evidence of the weakening position of some borrowers.

Loan collection rates have slowed, but by much less than might be anticipated from a simple review of the general agricultural income situation. This reflects the continuing tradition of farmers meeting their loan obligations, despite adverse circumstances.

Federal land banks' repayment rates have declined in each of the past 2 years, and are now running at around three- fourths the 1978-80 average rates. But this is not primarily a sign of stress. Interest rate differentials have discouraged prepayment of land bank mortgages in recent years. Fewer old loans are being rewritten into new ones with the purchase of additional land, because of the slowdown of land transfers. Nevertheless, the decline in FLB repayment rates, in part, probably derives from the weakened farm income. Under these conditions, farmers retain as much cash as possible for liquidity purposes. FLBs have shown some increase in the percentage of funds used to refinance short-term debt, another indicator of stress. Land bank delinquencies continue to be very low, but the trend is adverse. On June 30, 2.6 percent of the number of loans and 0.3 percent of the amount were delinquent. These figures showed normal seasonal improvement from March 31, but nearly double the amounts on June 30, 1981. Loans in liquidation were also nearly double, but represented only 0.2 percent of number and 0.33 percent of amount.

PCA collection rates are also slower than in recent years, but by much less than the drop in FLB repayment rates. For the first 6 months of 1982, PCA collection rates averaged about 83 percent of the 1978-80 average, compared to 93 percent in the first half of 1981. PCA renewals were running at about the same rate as a year earlier. Delinquencies were somewhat higher than for the FLBs, but well within acceptable limits and showing the same seasonal improvement. We have incomplete data from some districts, but they appear to show about 2.8 percent of number and 3.3 percent of amount were delinquent on June 30, and 1.1 percent of number and 1.4 percent of amount were in liquidation.

As might be expected, credit reviews indicate some decrease in loan quality among PCAs during 1982; however, overall quality remains strong. The proportion of loans rated "acceptable" is likely to be toward the bottom of the range of loan quality ratings for the decade of the 1970s. Losses charged off in the

PCA system increased in 1981, but there was little change in the FLB charge-off rate. Additional losses are likely during 1982.

Balance Sheet

It is clear that certain individuals and groups in the farm sector are in difficult financial shape. The prudent degree of financial leverage for a farmer has decreased with changes in the safety net of Federal commodity and credit programs during 1981. Even under normal farm income circumstances, borrowers and their lenders would be expected to adjust over time to the greater degree of financial risk assumed by the producers.

This situation is intensified by the weak farm income situation we now face. It is further aggravated by the series of relatively poor years brought on by a drought or other problems in a number of areas. Producers in these areas come into this period in already weakened financial condition. Current economic circumstances are anything but favorable to their financial prospects.

Larger commercial farms, which produce a sizeable share of total farm output and carry the bulk of the farm debt, are expected to experience significant difficulties in 1982. These farms are heavily capitalized operations. Cash expenses absorb a large proportion of their gross receipts. Because of their narrow operating margins, this group is exposed to greater financial stress when expenses rise or gross income falls. Particularly exposed are those who established or enlarged operations during the last 3-5 years, using much debt capital. Debt service is a significant factor in their cash outflow.

A second subgroup with difficulties is the large farmers who, because of adverse circumstances, were eligible for various economic emergency or natural disaster lending programs of Farmers Home Administration and Small Business Administration. Some of these borrowers faced a one-time hardship from which they have recovered. Others faced repeated adversity, which, combined with the cost price squeeze of the past 3 years, puts them in a very difficult situation.

A third subgroup is those with limited farming resources or limited managerial abilities, who were not particularly successful even under better economic circumstances. A portion of this group was dependent on nonfarm employment for a substantial portion of their livelihood and may now be victims of nonfarm unemployment.

Various observers suggest these groups may include more than 5 percent of the population of farm borrowers who may be forced to discontinue this year. However, no one really will know until 1982 repayments and 1983 loan servicing sessions with borrowers are completed during the winter months. Recent USDA actions to accelerate 1983 farm program payments and eligibility for the 1982 crop CCC soybean loan will relieve some of the pressure in this area.

Farm Credit System and FCA Actions

The continuing purpose of the Farm Credit System is to provide sound, adequate, and constructive credit, in good times and bad. The ultimate test is whether there is a reasonable prospect for the borrower's financial recovery.

Forbearance will continue to be our philosophy and program during 1982-83. We are now in a period, however, in which financial limits for some borrowers are certain to be tested. The System policy is to work with distressed borrowers so long as a reasonable prospect for recovery can be identified. Our forbearance philosophy also provides for counseling those who have little hope for financial survival. In such cases, we may encourage them to withdraw their remaining equity before it is dissipated.

The overriding constraint on the ability of the System to stick with borrowers in financial difficulty derives from the need to protect the financial health of the Farm Credit System. This protection is absolutely essential to ensure an adequate supply of future credit to the farm sector as a whole. Risks will be assumed, but they must be controlled so as to maintain the quality of System bonds sold in the securities markets. The System has set aside reserves, which serve as our first line of defense for just such a situation. But it is neither realistic nor prudent to guarantee all borrowers continued access to credit regardless of their economic prospects, and particularly during an extended series of poor years.

The System does not expect a great number of foreclosures, but there will be some increase in the number of liquidations of all kinds -- perhaps 5 percent of all PCA borrowers may no longer meet commercial credit standards. We do expect a significant increase in loan servicing activity with a large number of borrowers. Servicing steps will include careful planning for all, based on cash flow and net income prospects, and full use of the protection afforded by crop insurance, commodity credit loans, and other Government programs. In addition, extensions, debt restructuring, and reamortizations will be used, where appropriate. Nonetheless, some sale of assets may be needed in individual situations to solve extreme problems.

We have intensified efforts to cooperate with the Farmers Home Administration. FCS banks and associations are working with FmHA at the county, state, district, and national levels to provide complementary credit services. We intend to continue our special servicing efforts with FmHA, so long as the need requires.

Both the FCS banks and the Farm Credit Administration are making extra efforts to monitor the credit situation on a regular basis. We have implemented a special reporting mechanism to provide needed data on a regular basis. We have shared our information with leaders in the Administration and the Congress, and have used the information to outline the above comments.

Thank you, Mr. Chairman.

Outline, charts, and tables

Testimony at hearings on the farm income situation

Committee on Agriculture
U.S. House of Representatives

September 28, 1982

Emanuel Melichar

Senior Economist
Division of Research and Statistics
Board of Governors of the Federal Reserve System

My observations and comments on current and historical farm income data are based on my research work in agricultural finance They do not necessarily represent the views of the Board of Governors or of other members of its staff.

All of the data shown in the charts have been adjusted for inflation, using the Consumer Price Index. The data are presented in dollars of this year's (1982) purchasing power. The derivation of the charted income series is shown in Tables 5 and 6. The same series in current dollars are presented in Tables 3 and 4. Details of gross farm income and of nonfactor production expenses are shown in Tables 1 and 2.

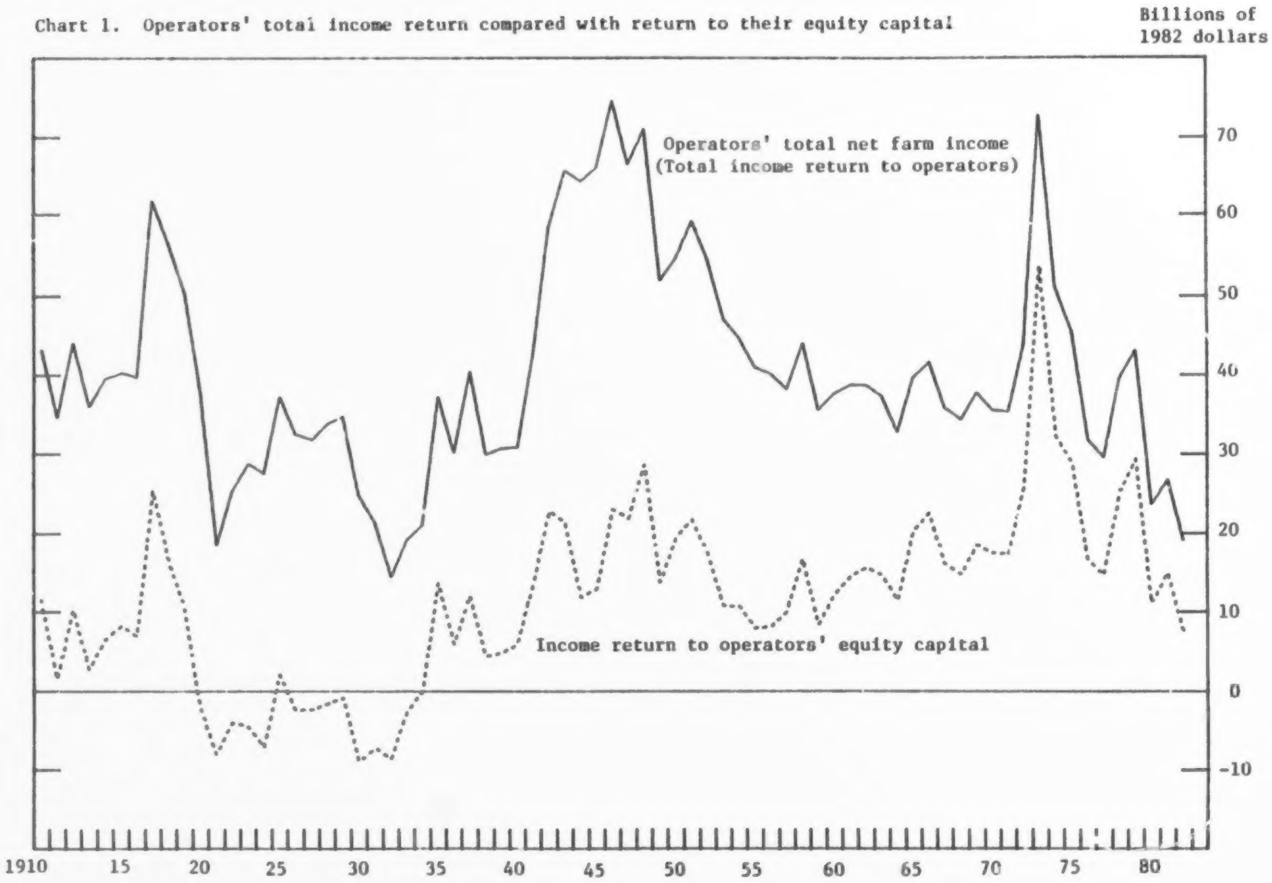
I. Farm income data as a measure of the profitability of farming.

1. Chart 1 compares operators' total net farm income, on which most attention is usually focused, with a measure of the return to operators' investment. The difference between them is the estimated income that farmers would regard as accruing to their labor and management work.

   a. Over a short period of years, the amount of labor and management inputs do not change greatly, and so changes in the total net income series adequately indicate changes in profitability. Both series, for example, reflect the large reduction in returns since 1979.

   b. Over a long period of time, more and more of total farm income has been a return to capital, as the labor provided by operators and their families has decreased greatly. Thus, contrary to the impression conveyed by the total income series, farming is currently considerably more profitable than in the 1920's and the Great Depression. Real farm profits currently resemble those experienced during the mid-1950s.

Chart 1. Operators' total income return compared with return to their equity capital



2. Chart 7 illustrates the derivation of returns to capital and equity and shows some of the trends that have affected these returns.

   a. Historically, gross income has risen since the 1930s. However, after nonfactor production expenses are subtracted, the resulting combined return to labor, management, and capital has been relatively flat except for the large temporary increases of the 1940s and 1970s.

   b. When the estimated value of labor and management are next subtracted, however, the resulting income return to capital exhibits a substantial upward long-run trend. The 1954-79 trend has been significantly interrupted by the lower returns of 1980-82.

   c. The similar upward trend in the return to equity, which is the total return to capital less interest paid on borrowed funds, has been even more severely disrupted in recent years by the sharp rise in interest payments.

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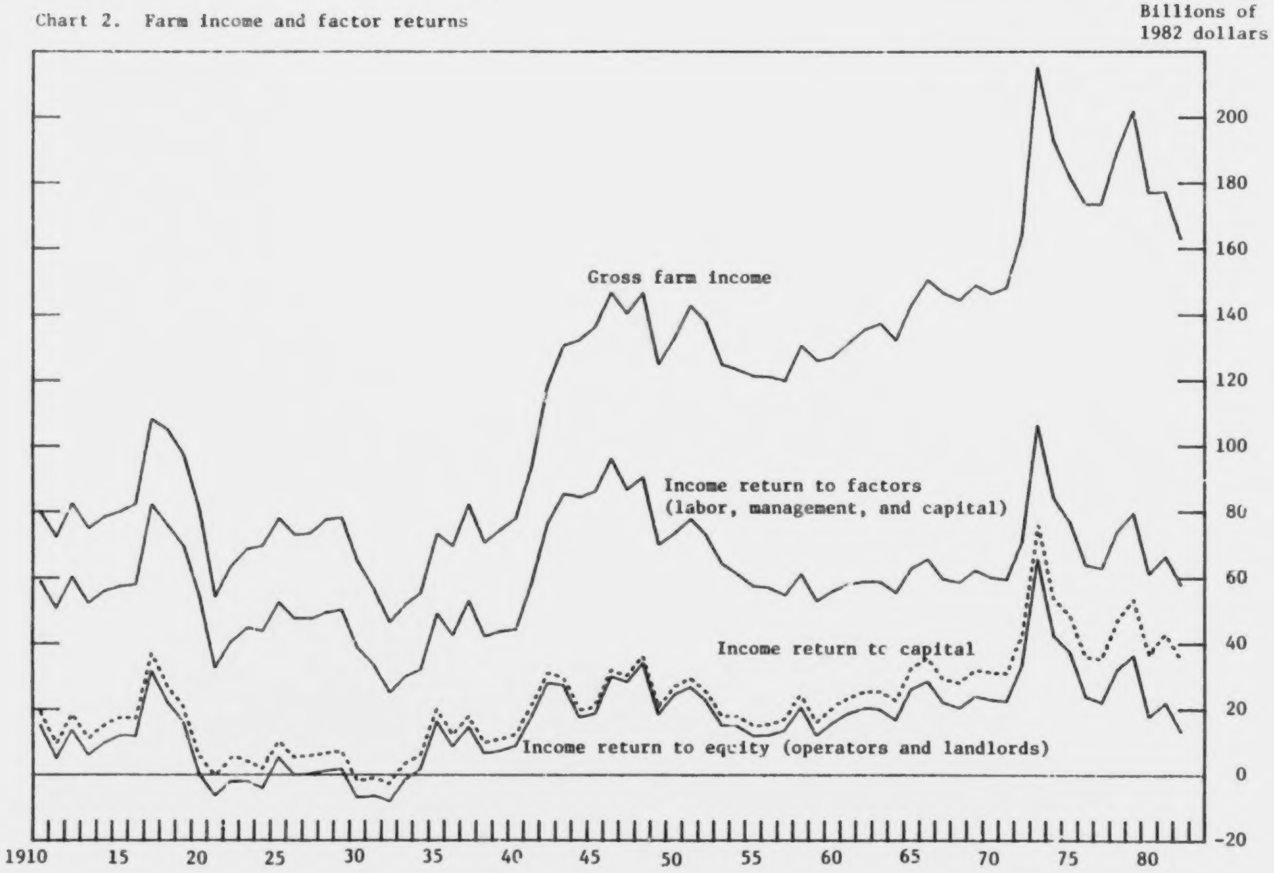
Chart 2. Farm income and factor returns



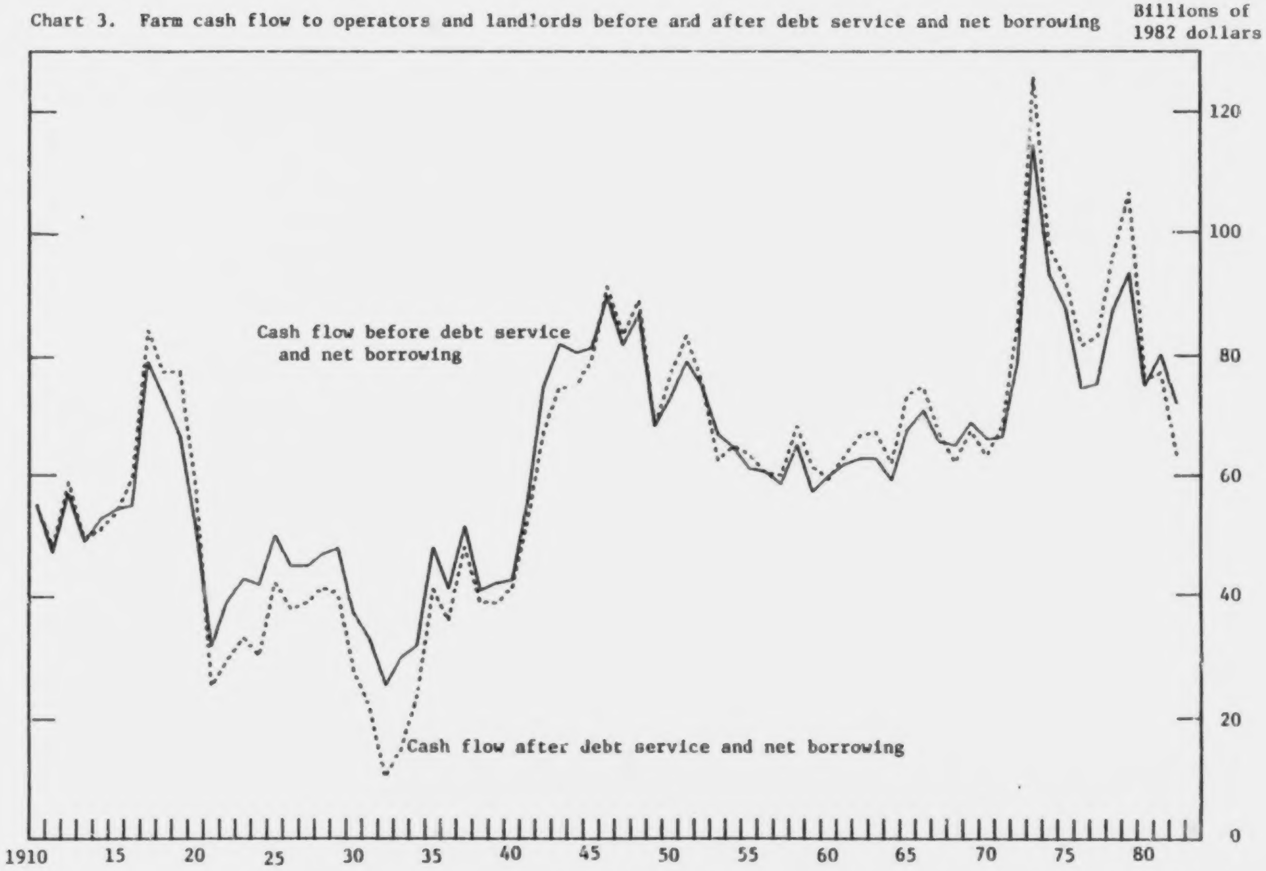
II. Measures of the impact of farming on the rural economy.

1. The impact of changes in farm profitability on the rural economy is best measured by the total cash flow generated for capital expenditures and consumption and other nonfarm uses, shown in Chart 3.

2. Cash flow is currently far greater than in the 1920s and 1930s, but is down very sharply since 1979.

3. The recent decrease in cash flow is seen as much greater if debt service and net borrowing are taken into account. During most of the 1970s, net borrowing exceeded interest payments, and thus use of credit contributed to cash flow. In 1980 and 1981, interest payments exceeded net borrowing, and so credit use decreased cash flow.

Chart 3. Farm cash flow to operators and landlords before and after debt service and net borrowing



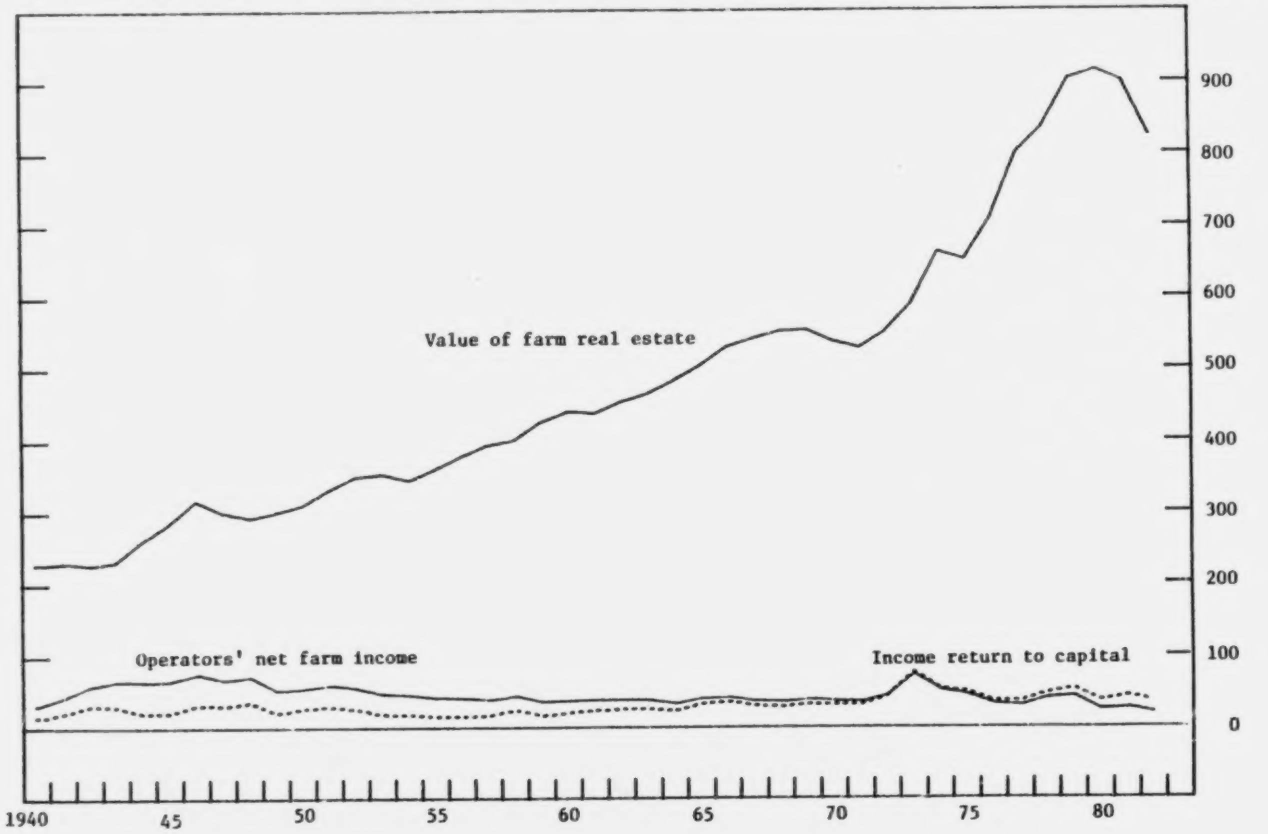
III. Measures of the impact of farm income on land prices.

1. One often encounters presentations such as Chart 4, which have helped to create a mistaken impression that there has been little or no relationship between income and land values in recent decades.

   a. There is obviously little relationship between the rising past trend in the value of farm real estate and the declining past trend in operators' net farm income. As I have indicated, however, the latter income series is not an appropriate indicator of the return to farm capital, of which real estate is the major component.

   b. A more appropriate measure of the return to farm real estate is the income return to capital. This return exhibits a rising trend. To compare its trend with that of farm real estate, however, one also needs to use a chart with a ratio scale, on which series with equal growth rates will have equal slopes, regardless of inherent differences in the dollar levels of the series.

Chart 4. Farm real estate value compared with income returns



2. In Chart 5, the trend in an appropriate measure of income--the return to capital--is compared with the trend in the value of farm real estate.

    a. It is evident that much of the upward trend in real estate values since the mid-1950s has been a logical outcome of the increased profitability of farming.

    b. With the upward trend in the return to capital now interrupted, it is not surprising that farm real estate values have also started to fall.

Chart 5. Farm real estate value compared with income return to capital--ratio scale chart

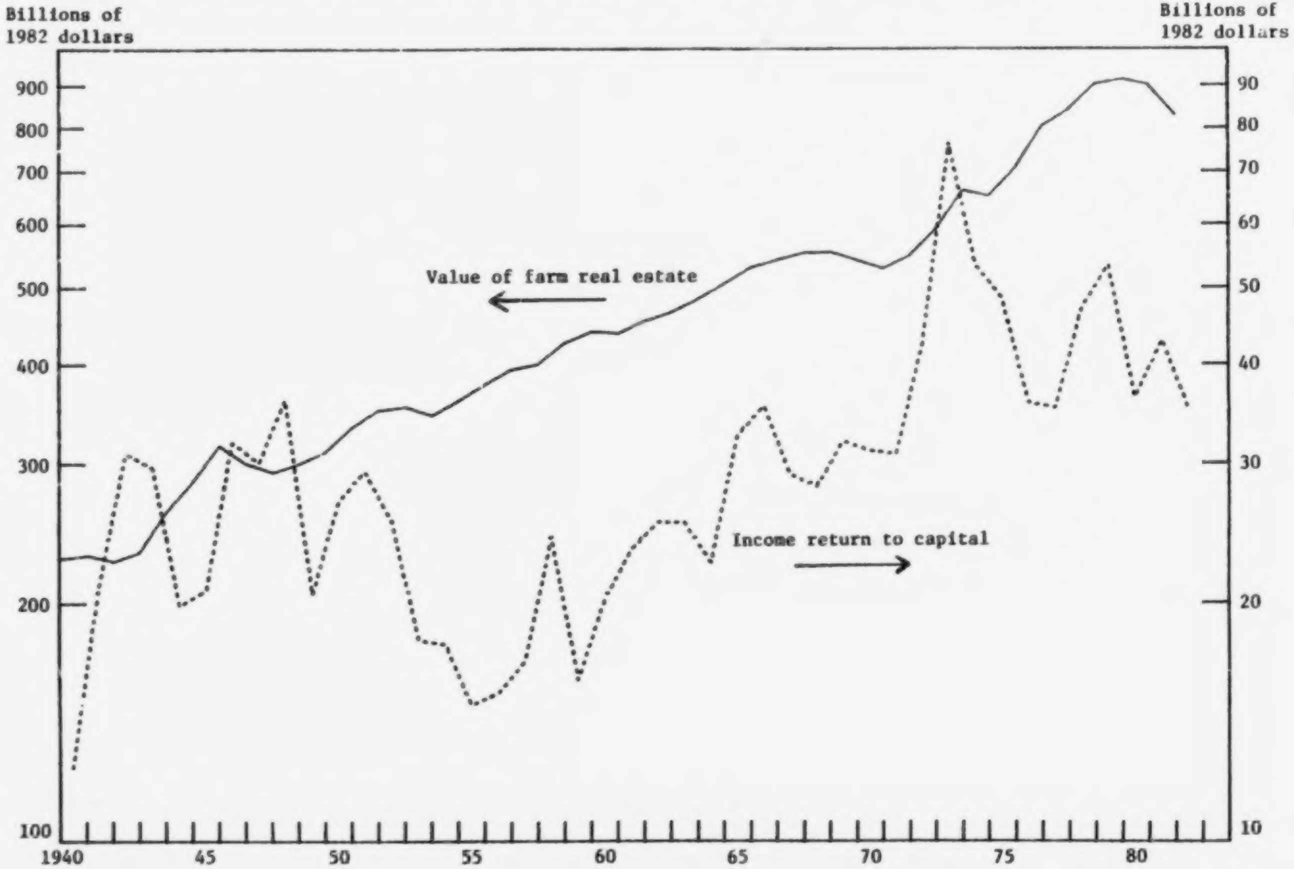


TABLE 1

GROSS FARM INCOME (INCLUDING DATA FOR OPERATOR DWELLINGS)
AMOUNTS IN MILLIONS OF DOLLARS

YEAR	TOTAL	CASH INCOME						CAPITALIZED AND NONMONEY INCOME			
		TOTAL	MARKETINGS			GOVERNMENT PAYMENTS	OTHER FARM INCOME	TOTAL	ADDITIONS TO INVENTORIES	HOME CONSUMPTION	RENTAL VALUE OF DWELLINGS
			TOTAL	LIVESTOCK	CROPS						
1910...	7689.	5780.	5780.	2851.	2929.	0.	******	1909.	212.	1270.	427.
1911...	6923.	5584.	5584.	2679.	2905.	0.	******	1339.	-264.	1165.	438.
1912...	8242.	6008.	6008.	2913.	3095.	0.	******	2234.	579.	1204.	451.
1913...	7653.	6238.	6238.	3161.	3077.	0.	******	1415.	-266.	1222.	459.
1914...	8135.	6036.	6036.	3137.	2899.	0.	******	2099.	417.	1228.	454.
1915...	8387.	6392.	6392.	3129.	3263.	0.	******	1995.	327.	1192.	476.
1916...	9305.	7746.	7746.	3711.	4035.	0.	******	1559.	-338.	1384.	513.
1917...	14296.	10736.	10736.	5094.	5642.	0.	******	3560.	986.	2003.	571.
1918...	16294.	13467.	13467.	6493.	6974.	0.	******	2827.	-153.	2341.	639.
1919...	17316.	14538.	14538.	6935.	7603.	0.	******	2778.	-509.	2556.	731.
1920...	16632.	12600.	12600.	5956.	6644.	0.	******	4032.	688.	2509.	835.
1921...	10008.	8058.	8058.	3952.	4106.	0.	******	1950.	-565.	1746.	769.
1922...	10957.	8575.	8575.	4275.	4300.	0.	******	2382.	-102.	1717.	767.
1923...	12122.	9545.	9545.	4680.	4865.	0.	******	2577.	-45.	1772.	850.
1924...	12302.	10225.	10225.	4812.	5413.	0.	******	2077.	-483.	1704.	856.
1925...	14081.	11021.	11021.	5476.	5545.	0.	******	3060.	365.	1827.	868.
1926...	13309.	10558.	10558.	5683.	4875.	0.	******	2751.	7.	1875.	869.
1927...	13161.	10733.	10733.	5408.	5325.	0.	******	2428.	-175.	1725.	878.
1928...	13758.	10991.	10991.	6035.	4956.		******	2767.	180.	1724.	863.
1929...	13816.	11312.	11312.	6182.	5130.		******	2504.	-122.	1713.	913.
1930...	11203.	9055.	9055.	5187.	3868.	0.	******	2148.	-269.	1552.	865.
1931...	8881.	6381.	6381.	3841.	2540.	0.	******	2500.	460.	1265.	775.
1932...	6515.	4748.	4748.	2752.	1996.	0.	******	1767.	110.	993.	664.
1933...	6913.	5463.	5332.	2846.	2486.	131.	******	1450.	-194.	1030.	614.
1934...	7638.	6803.	6357.	3336.	3021.	446.	******	835.	-930.	1125.	640.
1935...	10394.	7693.	7120.	4143.	2977.	573.	******	2701.	898.	1120.	683.
1936...	9870.	8669.	8391.	4742.	3649.	278.	******	1201.	-886.	1394.	693.
1937...	12183.	9200.	8864.	4940.	3924.	336.	******	2983.	816.	1434.	733.
1938...	10281.	8169.	7723.	4523.	3200.	446.	******	2112.	132.	1235.	745.
1939...	10680.	8635.	7872.	4536.	3336.	763.	******	2045.	95.	1209.	741.
1940...	11340.	9105.	8382.	4913.	3469.	723.	******	2235.	281.	1210.	744.
1941...	14271.	11655.	11111.	6492.	4619.	544.	******	2616.	420.	1429.	767.
1942...	19893.	16215.	15565.	9039.	6526.	650.	******	3678.	1099.	1758.	821.
1943...	23344.	20265.	19620.	11493.	8127.	645.	******	3079.	-53.	2253.	879.
1944...	24038.	21312.	20536.	11351.	9185.	776.	******	2726.	-410.	2181.	955.
1945...	25374.	22405.	21663.	12008.	9655.	742.	******	2969.	-439.	2356.	1052.
1946...	29568.	25574.	24802.	13786.	11016.	772.	******	3994.	29.	2662.	1303.
1947...	32386.	29934.	29620.	16527.	13093.	314.	******	2452.	-1760.	2765.	1447.
1948...	36454.	30484.	30227.	17129.	13098.	257.	******	5970.	1732.	2733.	1505.
1949...	30762.	27990.	27805.	15409.	12396.	185.	******	2772.	-866.	2230.	1408.
1950...	33103.	28764.	28461.	16105.	12356.	283.	20.	4339.	812.	2063.	1464.
1951...	38282.	33186.	32858.	19619.	13239.	286.	42.	5096.	1184.	2304.	1608.
1952...	37751.	32873.	32528.	18238.	14290.	275.	70.	4878.	922.	2220.	1736.
1953...	34439.	31290.	30993.	16923.	14070.	213.	84.	3149.	-623.	2007.	1765.
1954...	34181.	30190.	29832.	16276.	13556.	257.	101.	3991.	491.	1789.	1711.
1955...	33476.	29842.	29490.	15967.	13523.	229.	123.	3634.	215.	1678.	1741.
1956...	33959.	31096.	30401.	16363.	14038.	554.	141.	2863.	-456.	1585.	1734.
1957...	34788.	30899.	29714.	17376.	12338.	1016.	169.	3889.	618.	1484.	1787.
1958...	38958.	34767.	33456.	19227.	14229.	1089.	222.	4191.	825.	1505.	1861.
1959...	37890.	34556.	33647.	18904.	14743.	682.	227.	3334.	14.	1289.	2031.
1960...	38894.	35194.	34248.	18989.	15259.	702.	244.	3700.	397.	1205.	2098.
1961...	40547.	36900.	35164.	19514.	15650.	1493.	243.	3647.	336.	1109.	2202.
1962...	42343.	38472.	36468.	20158.	16310.	1747.	257.	3871.	620.	993.	2258.
1963...	43368.	39458.	37477.	20047.	17430.	1696.	285.	3910.	629.	921.	2360.
1964...	42304.	39843.	37326.	19948.	17378.	2181.	336.	2461.	-817.	835.	2443.
1965...	46549.	42215.	39365.	21686.	17679.	2463.	387.	4334.	1042.	811.	2481.
1966...	50468.	47128.	43435.	25026.	18409.	3277.	416.	3340.	-83.	824.	2599.
1967...	50524.	46384.	42817.	24383.	18434.	3079.	488.	4140.	657.	736.	2747.
1968...	51847.	48166.	44183.	25487.	18696.	3462.	521.	3681.	124.	719.	2838.
1969...	56408.	52532.	48179.	28573.	19606.	3794.	559.	3876.	99.	731.	3046.
1970...	58663.	54784.	50509.	29532.	20977.	3717.	558.	3879.	6.	776.	3097.
1971...	61968.	56534.	52748.	30479.	22269.	3145.	641.	5434.	1397.	744.	3293.
1972...	71022.	65732.	61106.	35583.	25523.	3961.	665.	5290.	861.	889.	3540.
1973...	98810.	90320.	86886.	45772.	41114.	2607.	827.	8490.	3406.	1115.	3969.
1974...	98036.	93769.	92391.	41326.	51065.	531.	847.	4267.	-1611.	1190.	4688.
1975...	101004.	90715.	88902.	43087.	45813.	807.	1006.	10289.	3400.	1514.	5375.
1976...	101967.	97122.	95355.	46323.	49032.	734.	1033.	4846.	-2366.	1185.	6027.
1977...	108610.	99184.	96203.	47635.	48569.	1819.	1162.	9425.	971.	1160.	7294.
1978...	127244.	116750.	112486.	58810.	53676.	3030.	1234.	10495.	1071.	1186.	8238.
1979...	151320.	134633.	131711.	68588.	63124.	1375.	1547.	16687.	5613.	1321.	9753.
1980...	150610.	142371.	139535.	67796.	71739.	1286.	1550.	8238.	-4292.	1157.	11373.
1981...	166753.	147332.	143466.	68483.	74984.	1932.	1934.	19420.	5528.	1164.	12728.
1982...	163200.	147900.	141700.	69500.	72200.	4100.	2100.	15300.	0.	1200.	14100.

THESE DATA SERIES INCLUDE SHARE RENT AND GOVERNMENT PAYMENTS RECEIVED BY LANDLORDS.

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TABLE [illegible]

FARM NONFACTOR OPERATING EXPENSES (INCLUDING DATA FOR OPERATOR DWELLINGS)
AMOUNTS IN MILLIONS OF DOLLARS

YEAR	TOTAL	FARM-PRODUCED ITEMS				MANUFACTURED ITEMS						REPAIRS AND OPERATION OF CAPITAL ITEMS	MACHINE HIRE AND CUSTOM WORK	OTHER OPERATING EXPENSES	TAXES
		TOTAL	FEED	LIVESTOCK	SEED	TOTAL	FERTILIZER	LIME	FUEL	PESTICIDES	ELECTRICITY				
1910...	1630.	601.	426.	119.	56.	171.	148.	4.	11.	7.	1.	300.	*****	363.	195.
1911...	1612.	603.	350.	188.	65.	190.	164.	4.	14.	7.	1.	237.	*****	367.	215.
1912...	1759.	710.	419.	217.	74.	187.	154.	7.	18.	7.	1.	260.	*****	377.	225.
1913...	1831.	718.	406.	250.	62.	206.	169.	6.	22.	7.	2.	267.	*****	383.	257.
1914...	1848.	691.	414.	215.	62.	227.	189.	6.	23.	7.	2.	270.	*****	399.	261.
1915...	1862.	680.	411.	207.	62.	205.	158.	7.	31.	7.	2.	312.	*****	381.	284.
1916...	2189.	853.	517.	260.	76.	250.	186.	7.	47.	8.	2.	348.	*****	434.	304.
1917...	2733.	1150.	614.	414.	122.	315.	223.	9.	69.	11.	3.	395.	*****	534.	339.
1918...	3642.	1760.	1106.	522.	132.	428.	300.	11.	100.	14.	3.	436.	*****	657.	361.
1919...	3962.	1802.	1097.	567.	138.	508.	340.	18.	126.	20.	4.	469.	*****	709.	450.
1920...	4231.	1850.	1258.	422.	170.	592.	372.	18.	182.	16.	4.	513.	*****	716.	556.
1921...	2974.	1035.	710.	202.	123.	415.	232.	17.	147.	14.	5.	403.	*****	535.	586.
1922...	3043.	1104.	676.	319.	109.	399.	216.	18.	145.	14.	6.	412.	*****	565.	563.
1923...	3330.	1234.	819.	304.	111.	443.	246.	17.	157.	16.	7.	480.	*****	583.	590.
1924...	3675.	1549.	1116.	313.	120.	462.	248.	16.	171.	19.	8.	483.	*****	590.	583.
1925...	3737.	1506.	988.	382.	136.	540.	283.	16.	210.	22.	9.	501.	*****	601.	589.
1926...	3754.	1429.	891.	396.	142.	581.	280.	18.	249.	25.	9.	525.	*****	620.	599.
1927...	3808.	1497.	892.	465.	140.	552.	248.	19.	246.	29.	10.	541.	*****	598.	620.
1928...	4129.	1699.	977.	588.	134.	637.	300.	18.	270.	33.	16.	557.	*****	600.	636.
1929...	4031.	1505.	919.	464.	122.	658.	282.	18.	304.	37.	17.	582.	*****	595.	651.
1930...	3605.	1277.	791.	362.	124.	654.	281.	16.	300.	33.	10.	679.	*****	567.	428.
1931...	2792.	818.	448.	253.	117.	494.	169.	13.	265.	28.	19.	398.	*****	501.	599.
1932...	2254.	620.	348.	193.	79.	387.	110.	8.	227.	27.	15.	290.	*****	447.	510.
1933...	2272.	686.	422.	199.	65.	388.	114.	6.	226.	27.	15.	328.	*****	432.	438.
1934...	2529.	829.	542.	183.	104.	474.	166.	10.	251.	30.	17.	357.	*****	445.	424.
1935...	2796.	948.	528.	312.	108.	508.	172.	16.	273.	31.	16.	444.	*****	462.	434.
1936...	3163.	1185.	755.	283.	147.	596.	234.	27.	284.	33.	18.	465.	*****	477.	440.
1937...	3535.	1331.	805.	332.	194.	659.	250.	29.	324.	36.	20.	555.	*****	538.	452.
1938...	3314.	1131.	557.	368.	206.	646.	227.	31.	329.	38.	21.	578.	*****	511.	448.
1939...	3633.	1346.	732.	445.	169.	662.	237.	36.	323.	41.	25.	636.	*****	513.	456.
1940...	4105.	1712.	998.	517.	197.	728.	256.	50.	350.	44.	28.	488.	*****	526.	651.
1941...	4515.	1927.	1089.	635.	203.	812.	287.	47.	402.	47.	29.	730.	*****	583.	463.
1942...	5702.	2803.	1625.	877.	301.	948.	358.	58.	444.	52.	35.	845.	*****	640.	466.
1943...	6726.	3649.	2135.	908.	606.	1071.	439.	66.	478.	58.	30.	991.	*****	738.	477.
1944...	7254.	3679.	2427.	812.	440.	1104.	479.	97.	509.	63.	36.	1099.	*****	795.	699.
1945...	7999.	4184.	2738.	1011.	435.	1309.	542.	115.	544.	68.	40.	1145.	*****	804.	557.
1946...	8976.	4620.	3022.	1170.	428.	1456.	571.	112.	645.	77.	51.	1411.	*****	876.	617.
1947...	10802.	5639.	3746.	1379.	514.	1732.	640.	115.	923.	90.	56.	1645.	*****	1053.	733.
1948...	11937.	6166.	3996.	1589.	581.	2026.	729.	97.	1009.	118.	73.	1805.	*****	1130.	806.
1949...	11165.	5096.	3024.	1529.	543.	2254.	709.	106.	1130.	239.	80.	1762.	*****	1181.	872.
1950...	12168.	5805.	3283.	2004.	518.	2417.	868.	107.	1192.	179.	71.	1783.	65.	1179.	919.
1951...	14222.	7132.	4164.	2417.	551.	2604.	959.	105.	1250.	195.	95.	2032.	98.	1373.	983.
1952...	14464.	6883.	4331.	1958.	594.	2763.	1078.	106.	1288.	190.	101.	2218.	168.	1399.	1033.
1953...	13286.	5641.	3770.	1320.	551.	2791.	1099.	79.	1338.	155.	120.	2203.	192.	1399.	1060.
1954...	13681.	5994.	3906.	1563.	525.	2865.	1136.	73.	1366.	167.	123.	2144.	231.	1367.	1080.
1955...	13955.	5985.	3880.	1539.	566.	2911.	1106.	79.	1403.	200.	123.	2197.	282.	1439.	1141.
1956...	14321.	6023.	3886.	1618.	519.	2997.	1079.	87.	1434.	269.	128.	2351.	331.	1441.	1178.
1957...	15046.	6479.	4035.	1934.	510.	2956.	1076.	90.	1464.	194.	132.	2653.	409.	1507.	1202.
1958...	16693.	7751.	4541.	2702.	508.	3019.	1113.	93.	1447.	226.	140.	2670.	558.	1584.	1306.
1959...	17721.	7928.	4744.	2693.	491.	3227.	1238.	94.	1487.	246.	162.	2669.	583.	1885.	1429.
1960...	17506.	7577.	4552.	2506.	519.	3295.	1252.	92.	1484.	290.	177.	2498.	645.	1962.	1529.
1961...	18237.	8037.	4763.	2729.	545.	3475.	1363.	94.	1508.	310.	200.	2468.	613.	2035.	1609.
1962...	19455.	8856.	5187.	3104.	565.	3639.	1446.	98.	1512.	368.	215.	2481.	622.	2180.	1677.
1963...	20128.	9235.	5690.	2926.	619.	3854.	1600.	112.	1535.	379.	228.	2438.	661.	2203.	1737.
1964...	19861.	8592.	5512.	2419.	661.	4082.	1772.	116.	1549.	402.	243.	2382.	657.	2350.	1798.
1965...	20946.	9306.	5674.	2912.	720.	4284.	1877.	117.	1567.	474.	249.	2376.	735.	2371.	1874.
1966...	23078.	10705.	6401.	3544.	760.	4649.	2098.	121.	1616.	562.	252.	2548.	765.	2409.	2002.
1967...	24199.	10891.	6646.	3431.	814.	5127.	2317.	112.	1657.	791.	250.	2752.	868.	2439.	2122.
1968...	24616.	10864.	6357.	3676.	831.	5186.	2323.	111.	1662.	827.	263.	2725.	900.	2639.	2298.
1969...	26269.	12196.	7100.	4225.	871.	5213.	2209.	103.	1717.	906.	278.	2790.	943.	2671.	2456.
1970...	27843.	13280.	8028.	4324.	928.	5418.	2348.	95.	1711.	960.	304.	2828.	913.	2816.	2588.
1971...	29803.	14244.	8049.	5123.	1072.	5856.	2563.	91.	1722.	1143.	337.	2985.	1041.	2973.	2704.
1972...	32413.	16180.	8397.	6668.	1115.	6147.	2620.	101.	1688.	1367.	371.	3020.	1052.	3199.	2815.
1973...	41064.	22906.	13224.	8065.	1617.	7203.	3402.	101.	1877.	1414.	409.	3352.	1302.	3415.	2886.
1974...	44635.	21585.	14513.	5131.	1941.	10757.	5898.	156.	2690.	1513.	501.	3969.	1302.	3926.	3096.
1975...	45779.	19999.	12907.	4954.	2138.	12355.	6504.	154.	3318.	1783.	594.	4488.	1541.	4203.	3193.
1976...	50718.	22628.	14378.	5884.	2366.	13000.	6255.	213.	3964.	2108.	858.	5130.	1546.	4523.	3491.
1977...	53618.	23523.	13967.	7072.	2484.	13892.	6308.	221.	4356.	1938.	1069.	5765.	1682.	5096.	3660.
1978...	60080.	27254.	14466.	10150.	2638.	15274.	6361.	259.	4610.	2656.	1389.	6616.	1776.	5557.	3603.
1979...	71838.	33414.	17766.	12688.	2960.	18532.	7223.	307.	6264.	3057.	1681.	7281.	2257.	6485.	3510.
1980...	76572.	32508.	18618.	10539.	3351.	23118.	9498.	424.	8095.	3317.	1780.	7997.	2247.	6527.	4185.
1981...	80503.	31777.	18905.	8916.	3956.	25144.	9637.	436.	9298.	3727.	2045.	8440.	2940.	7659.	4543.
1982...	80100.	31700.	18000.	9700.	4000.	24100.	8900.	400.	8700.	4000.	2100.	8900.	3000.	7600.	4800.

THESE USDA SERIES INCLUDE EXPENSES OF LANDLORDS.

TABLE 3

FARM CASH FLOW AND INCOME RETURNS TO FACTORS (LABOR, MANAGEMENT, AND CAPITAL) (INCLUDING DATA FOR OPERATOR DWELLINGS)
CURRENT DOLLARS
AMOUNTS IN MILLIONS OF DOLLARS

YEAR	GROSS INCOME	LESS: NONFACTOR OPERATING EXPENSES	EQUALS: CASH FLOW TO FACTORS	LESS: CAPITAL CONSUMPTION	EQUALS: INCOME RETURNS TO FACTORS	LESS: LABOR & MANAGEMENT RETURNS			EQUALS: INCOME RETURN TO CAPITAL*	LESS: INTEREST ON BORROWED FUNDS	EQUALS: INCOME RETURN TO EQUITY			ADDENDUM: TOTAL INCOME RETURN TO OPERATORS
						HIRED LABOR	IMPUTED OPERATORS* LABOR	IMPUTED OPERATORS* MANAGEMENT			TOTAL*	LANDLORDS	OPERATORS*	
1910...	7689.	1630.	6059.	416.	5643.	755.	2796.	258.	1834.	410.	1424.	320.	1104.	4158.
1911...	6923.	1612.	5311.	443.	4868.	758.	2943.	252.	915.	437.	478.	331.	147.	3342.
1912...	8242.	1759.	6483.	469.	6014.	789.	3112.	269.	1844.	473.	1371.	343.	1028.	4409.
1913...	7653.	1831.	5822.	481.	5341.	804.	3124.	279.	1134.	517.	617.	340.	277.	3680.
1914...	8135.	1848.	6287.	482.	5805.	804.	3166.	270.	1565.	540.	1025.	355.	670.	4106.
1915...	8387.	1862.	6525.	524.	6001.	815.	3073.	289.	1824.	563.	1261.	403.	858.	4220.
1916...	9305.	2189.	7116.	597.	6519.	904.	3341.	348.	1926.	612.	1314.	534.	780.	4469.
1917...	14296.	2733.	11563.	714.	10849.	1127.	4367.	485.	4870.	693.	4177.	825.	3352.	8204.
1918...	16294.	3642.	12652.	902.	11750.	1337.	5654.	592.	4167.	767.	3400.	859.	2541.	8787.
1919...	17316.	3962.	13354.	1040.	12314.	1515.	6469.	644.	3686.	886.	2800.	928.	1872.	8985.
1920...	16632.	4231.	12401.	1211.	11190.	1790.	7695.	546.	1159.	1101.	58.	504.	-446.	7795.
1921...	10008.	2978.	7030.	1035.	5995.	1170.	4495.	357.	-27.	1151.	-1178.	304.	-1482.	3370.
1922...	10957.	3043.	7914.	934.	6980.	1127.	4658.	379.	816.	1142.	-326.	368.	-694.	4343.
1923...	12122.	3330.	8792.	943.	7849.	1251.	5446.	421.	731.	1100.	-369.	430.	-799.	5068.
1924...	12302.	3675.	8627.	952.	7675.	1248.	5676.	440.	311.	1052.	-741.	520.	-1261.	4855.
1925...	14081.	3737.	10344.	872.	9472.	1267.	5878.	483.	1845.	1001.	844.	470.	374.	6738.
1926...	13304.	3749.	9555.	886.	8669.	1330.	5917.	464.	958.	977.	-19.	425.	-444.	5937.
1927...	13161.	3800.	9361.	890.	8471.	1302.	5663.	469.	1037.	950.	87.	520.	-433.	5699.
1928...	13738.	4129.	9609.	900.	8709.	1290.	5779.	471.	1169.	962.	207.	496.	-289.	5961.
1929...	13816.	4031.	9785.	916.	8869.	1300.	5805.	494.	1270.	931.	339.	486.	-147.	6152.
1930...	11203.	3605.	7598.	955.	6643.	1177.	5404.	395.	-333.	886.	-1219.	321.	-1540.	4259.
1931...	8881.	2792.	6089.	856.	5233.	914.	4198.	284.	-163.	839.	-1002.	136.	-1138.	3344.
1932...	6515.	2258.	4257.	734.	3523.	669.	3039.	210.	-395.	767.	-1162.	55.	-1217.	2032.
1933...	6913.	2272.	4641.	644.	3997.	617.	2675.	236.	469.	667.	-198.	158.	-356.	2555.
1934...	7638.	2529.	5109.	650.	4459.	679.	2639.	282.	859.	601.	258.	256.	2.	2923.
1935...	10394.	2796.	7598.	664.	6934.	775.	3023.	314.	2822.	534.	2288.	307.	1981.	5278.
1936...	9950.	3163.	6787.	728.	6059.	868.	3089.	368.	1734.	500.	1234.	383.	851.	4308.
1937...	12183.	3535.	8648.	796.	7852.	988.	3834.	386.	2644.	479.	2165.	380.	1785.	6005.
1938...	10281.	3314.	6967.	833.	6134.	979.	3375.	340.	1440.	476.	964.	318.	646.	4361.
1939...	10680.	3633.	7047.	781.	6266.	988.	3387.	334.	1557.	485.	1072.	379.	693.	4414.
1940...	11340.	4105.	7235.	797.	6438.	1029.	3270.	343.	1796.	479.	1317.	448.	869.	4482.
1941...	14271.	4515.	9756.	870.	8886.	1249.	3963.	469.	3205.	500.	2705.	647.	2058.	6490.
1942...	19893.	5702.	14191.	1335.	12856.	1631.	5367.	653.	5205.	482.	4723.	890.	3833.	9853.
1943...	23344.	6726.	16618.	1369.	15249.	2027.	7107.	829.	5287.	441.	4846.	1044.	3802.	11736.
1944...	24038.	7256.	16782.	1425.	15357.	2202.	8686.	865.	3604.	407.	3197.	1043.	2154.	11705.
1945...	25370.	7995.	17375.	1310.	16065.	2299.	9003.	896.	3867.	390.	3477.	1064.	2413.	12312.
1946...	29568.	8976.	20592.	1189.	19403.	2532.	9401.	1031.	6440.	402.	6038.	1401.	4637.	15069.
1947...	32386.	10802.	21584.	1553.	20031.	2783.	9082.	1225.	6941.	439.	6502.	1455.	5047.	15354.
1948...	36454.	11937.	24517.	2002.	22515.	2990.	9298.	1232.	8995.	491.	8504.	1370.	7134.	17664.
1949...	30762.	11165.	19597.	2365.	17232.	2806.	8211.	1163.	5052.	539.	4513.	1107.	3406.	12780.
1950...	33103.	12148.	20955.	2665.	18290.	2811.	7633.	1159.	6687.	598.	6089.	1233.	4856.	13648.
1951...	38282.	14220.	24062.	3147.	20915.	2921.	8800.	1314.	7880.	692.	7188.	1368.	5820.	15934.
1952...	37751.	14416.	23335.	3326.	20009.	2857.	8891.	1314.	6947.	770.	6177.	1421.	4756.	14961.
1953...	34447.	13286.	21161.	3454.	17707.	2736.	8716.	1296.	4959.	777.	4182.	1214.	2968.	12980.
1954...	34181.	13681.	20500.	3581.	16919.	2596.	8185.	1218.	4920.	791.	4129.	1159.	2970.	12373.
1955...	33476.	13955.	19521.	3700.	15821.	2615.	7887.	1204.	4115.	844.	3271.	1057.	2214.	11305.
1956...	33959.	14321.	19638.	3723.	15915.	2641.	7703.	1245.	4326.	911.	3415.	1109.	2306.	11254.
1957...	34788.	15046.	19742.	3913.	15829.	2734.	6998.	1187.	4910.	981.	3929.	1029.	2900.	11085.
1958...	38958.	16690.	22268.	4011.	18257.	2842.	6862.	1311.	7242.	1086.	6156.	1161.	4995.	13168.
1959...	37890.	17721.	20169.	4251.	15918.	2906.	6880.	1311.	4822.	1222.	3600.	1077.	2523.	10713.
1960...	38894.	17506.	21388.	4337.	17051.	3062.	6439.	1360.	6190.	1347.	4843.	1124.	3719.	11518.
1961...	40547.	18237.	22310.	4388.	17922.	3192.	6194.	1304.	7232.	1427.	5805.	1346.	4459.	11957.
1962...	42343.	19415.	22928.	4530.	18398.	3299.	5770.	1409.	7920.	1568.	6352.	1467.	4885.	12064.
1963...	43360.	20120.	23240.	4696.	18544.	3400.	5697.	1443.	8004.	1751.	6253.	1623.	4630.	11770.
1964...	42304.	19861.	22443.	4903.	17540.	3483.	5366.	1470.	7221.	1910.	5311.	1655.	3656.	10492.
1965...	46549.	20946.	25603.	5111.	20492.	3604.	4758.	1539.	10591.	2103.	8488.	1886.	6602.	12899.
1966...	50468.	23078.	27390.	5384.	22006.	3683.	4752.	1675.	11896.	2340.	9556.	2023.	7533.	13960.
1967...	50520.	24199.	26321.	5781.	20540.	3723.	5157.	1637.	10023.	2596.	7427.	1882.	5545.	12339.
1968...	51847.	24616.	27231.	6200.	21031.	3920.	5319.	1708.	10084.	2790.	7294.	1999.	5295.	12322.
1969...	56408.	26269.	30139.	6574.	23565.	4152.	5455.	1843.	12115.	3059.	9056.	2061.	6995.	14293.
1970...	58663.	27843.	30820.	6766.	24054.	4340.	5329.	1908.	12477.	3381.	9096.	2096.	7000.	14236.
1971...	61968.	29803.	32165.	7354.	24811.	4372.	5560.	1979.	12900.	3551.	9349.	2116.	7233.	14772.
1972...	71022.	32413.	38609.	7893.	30716.	4557.	5440.	2302.	18417.	3899.	14518.	3356.	11162.	18906.
1973...	98810.	41064.	57746.	8951.	48795.	5167.	5475.	3280.	34873.	4706.	30167.	5500.	24667.	33423.
1974...	98036.	44635.	53401.	10569.	42832.	6075.	5938.	3637.	27182.	5788.	21394.	4968.	16426.	26001.
1975...	101004.	45779.	55225.	12582.	42643.	6586.	5593.	3552.	26912.	6279.	20633.	4531.	16102.	25247.
1976...	104967.	50710.	51257.	13798.	37459.	7510.	5154.	3755.	21040.	7045.	13995.	4238.	9757.	18667.
1977...	108610.	53618.	54992.	15717.	39275.	7953.	5503.	3758.	22061.	8336.	13725.	4553.	9172.	18433.
1978...	127244.	60080.	67164.	17350.	49814.	8348.	5379.	4394.	31690.	9975.	21715.	4831.	16884.	26655.
1979...	151328.	71839.	79489.	19686.	55795.	9829.	5316.	5061.	39987.	12678.	27309.	5340.	21969.	32346.
1980...	150610.	76572.	74038.	22003.	52035.	10411.	5198.	5519.	30908.	15764.	15144.	5737.	9407.	20125.
1981...	166753.	80503.	86250.	23779.	62471.	11114.	5270.	5782.	40305.	19716.	20589.	6526.	14063.	25117.
1982...	163200.	80100.	83100.	25200.	57900.	11200.	5843.	5700.	35157.	21900.	13257.	5800.	7457.	19000.

TABLE 9

AMOUNT AND DISPOSITION OF FUNDS FROM FARM CASH FLOW AND BORROWING (INCLUDING DATA FOR OPERATOR DWELLINGS)
CURRENT DOLLARS
AMOUNTS IN MILLIONS OF DOLLARS

YEAR	GROSS INCOME	LESS: NONFACTOR OPERATING EXPENSES AND HIRED LABOR	EQUALS: CASH FLOW TO OPERATORS AND LANDLORDS	LESS: DEBT SERVICE AND REPAYMENT		EQUALS: FUNDS FOR INVESTMENT, TRANSFERS, AND NONFARM USES	LESS: FARM INVESTMENT				EQUALS: FUNDS FOR FARM TRANSFERS AND NONFARM USES
							CAPITAL EXPENDITURES		ADDED TO INVENTORY		
				INTEREST PAID	NET DEBT REPAYMENT		BUILDINGS	MACHINERY	LIVESTOCK	CROPS	
1910...	7689.	2385.	5304.	410.	-406.	5300.	236.	295.	0.	212.	4557.
1911...	6923.	2370.	4553.	437.	-524.	4640.	225.	305.	0.	-260.	4370.
1912...	8242.	2548.	5694.	673.	-660.	5681.	244.	316.	0.	379.	4742.
1913...	7653.	2635.	5018.	517.	-551.	5052.	244.	308.	0.	-266.	4766.
1914...	8135.	2652.	5483.	540.	-350.	5293.	244.	336.	0.	417.	4296.
1915...	8387.	2677.	5710.	563.	-491.	5638.	229.	381.	0.	327.	4701.
1916...	9305.	3093.	6212.	612.	-1119.	6719.	324.	396.	0.	-338.	6337.
1917...	14296.	3860.	10436.	692.	-1368.	11112.	449.	466.	0.	986.	9211.
1918...	16294.	4979.	11315.	767.	-1392.	11940.	478.	479.	0.	-153.	11136.
1919...	17316.	5477.	11839.	886.	-2786.	13739.	653.	624.	0.	-509.	12971.
1920...	16632.	6021.	10611.	1101.	-2506.	12016.	566.	833.	0.	688.	9929.
1921...	10008.	4144.	5864.	1151.	61.	4652.	223.	325.	0.	-565.	4669.
1922...	10957.	4170.	6787.	1142.	558.	5087.	269.	363.	0.	-102.	4557.
1923...	12122.	4581.	7541.	1100.	596.	5845.	317.	485.	0.	-45.	5088.
1924...	12302.	4923.	7379.	1052.	1019.	5308.	298.	431.	0.	-483.	5062.
1925...	14081.	5004.	9077.	1001.	416.	7660.	311.	532.	0.	365.	6452.
1926...	13309.	5084.	8225.	977.	321.	6927.	297.	568.	0.	7.	6055.
1927...	13161.	5102.	8059.	950.	126.	6983.	355.	529.	0.	-175.	6274.
1928...	13738.	5419.	8319.	942.	67.	7310.	331.	585.	0.	140.	6254.
1929...	13816.	5331.	8485.	931.	426.	7128.	387.	659.	0.	-122.	6204.
1930...	11203.	4782.	6421.	886.	758.	4777.	193.	524.	0.	-269.	4329.
1931...	8881.	3706.	5175.	839.	929.	3407.	97.	311.	0.	460.	2539.
1932...	6515.	2927.	3588.	707.	1446.	1435.	37.	157.	0.	110.	1131.
1933...	6913.	2889.	4024.	667.	1365.	1992.	57.	140.	0.	-194.	1989.
1934...	7638.	3208.	4430.	601.	576.	3253.	70.	317.	0.	-930.	3796.
1935...	10394.	3571.	6823.	534.	453.	5836.	135.	448.	0.	698.	4555.
1936...	9950.	4031.	5919.	500.	269.	5150.	169.	617.	0.	-806.	5170.
1937...	12183.	4523.	7660.	479.	32.	7149.	237.	710.	0.	816.	5386.
1938...	10281.	4293.	5988.	478.	-176.	5686.	218.	513.	0.	132.	4823.
1939...	10680.	4621.	6059.	485.	-11.	5585.	270.	561.	0.	95.	4659.
1940...	11340.	5134.	6206.	479.	-251.	5978.	304.	625.	59.	222.	4768.
1941...	14273.	5766.	8507.	500.	-17.	8024.	330.	933.	306.	114.	6341.
1942...	19893.	7333.	12560.	482.	731.	11347.	343.	953.	565.	534.	8952.
1943...	23344.	8753.	14591.	441.	845.	13305.	378.	656.	435.	-484.	12320.
1944...	24038.	9458.	14580.	407.	621.	13552.	418.	1203.	-682.	232.	12381.
1945...	25374.	10298.	15076.	390.	33.	14653.	487.	1198.	-245.	-194.	13407.
1946...	29568.	11508.	18060.	410.	-728.	18378.	1161.	1034.	-475.	504.	16154.
1947...	32386.	13585.	18801.	439.	-806.	19168.	1434.	1994.	-583.	-1177.	17500.
1948...	36454.	14927.	21527.	491.	-1064.	22100.	1640.	2844.	-56.	1708.	15964.
1949...	30762.	13971.	16791.	539.	-515.	16767.	1570.	3154.	196.	-1062.	12909.
1950...	35103.	16959.	18144.	598.	-1505.	19051.	1522.	3152.	607.	205.	13565.
1951...	38282.	17141.	21141.	692.	-1817.	22266.	1599.	3321.	1017.	167.	16162.
1952...	37751.	17273.	20478.	770.	-861.	20569.	1655.	2966.	579.	302.	15067.
1953...	34447.	16022.	18425.	777.	372.	17276.	1527.	3201.	-81.	-542.	13171.
1954...	34181.	16277.	17904.	791.	-897.	18010.	1425.	2739.	268.	231.	13355.
1955...	33476.	16570.	16906.	844.	-1481.	17543.	1385.	2760.	18.	197.	13183.
1956...	33959.	16962.	16997.	911.	-868.	16954.	1392.	2406.	-305.	-111.	13604.
1957...	34788.	17780.	17008.	981.	-1614.	17641.	1611.	2512.	-211.	829.	12900.
1958...	38958.	19532.	19426.	1086.	-1988.	20328.	1355.	3150.	576.	248.	14999.
1959...	37890.	20627.	17263.	1222.	-2434.	18475.	1650.	3016.	810.	-404.	13393.
1960...	38894.	20568.	18326.	1347.	-1179.	18158.	1686.	2802.	89.	308.	13273.
1961...	40547.	21429.	19118.	1427.	-1811.	19502.	1748.	2866.	372.	-36.	14552.
1962...	42339.	22710.	19629.	1568.	-2732.	20793.	1832.	3190.	585.	35.	15151.
1963...	43368.	23528.	19840.	1751.	-3129.	21218.	1886.	3525.	396.	233.	15178.
1964...	42308.	23348.	18960.	1910.	-2799.	19849.	1918.	3770.	-38.	-779.	14978.
1965...	46549.	24550.	21999.	2103.	-3909.	23805.	1926.	4179.	-175.	1217.	16738.
1966...	50468.	26761.	23707.	2340.	-3622.	24989.	2077.	4611.	221.	-304.	18384.
1967...	50520.	27922.	22598.	2596.	-3105.	23107.	2314.	5132.	82.	575.	15004.
1968...	51847.	28536.	23311.	2790.	-1808.	22329.	2146.	4550.	218.	-94.	15509.
1969...	56408.	30421.	25987.	3059.	-2567.	25495.	2340.	4525.	222.	-123.	18531.
1970...	58663.	32183.	26480.	3381.	-2257.	25356.	2373.	4918.	665.	-659.	18059.
1971...	61968.	34175.	27793.	3551.	-4244.	28486.	2491.	4873.	460.	937.	19725.
1972...	71022.	36970.	34052.	3899.	-6700.	36853.	2372.	5695.	445.	416.	27925.
1973...	98810.	46231.	52579.	4706.	-9835.	57708.	3074.	7647.	1810.	1588.	43589.
1974...	98036.	50710.	47326.	5788.	-8127.	49665.	4402.	8195.	454.	-2065.	38679.
1975...	101004.	52365.	48639.	6279.	-8960.	51320.	4691.	8653.	-1044.	4444.	34576.
1976...	101967.	58220.	43747.	7065.	-11167.	47849.	5040.	9997.	-682.	-1684.	35178.
1977...	108610.	61571.	47039.	8336.	-13163.	51866.	5919.	10501.	-1261.	2233.	34395.
1978...	127244.	68428.	58816.	9475.	-16047.	64799.	6913.	12738.	-1488.	2471.	44165.
1979...	151320.	81268.	70052.	12678.	-22548.	79922.	6723.	14206.	856.	4757.	53380.
1980...	150610.	86983.	63627.	15764.	-16799.	64662.	6035.	13008.	1338.	-5630.	49911.
1981...	166753.	91617.	75136.	19716.	-16664.	72084.	6255.	12607.	279.	5249.	47694.
1982...	163200.	91300.	71900.	21900.	-13000.	63000.	6000.	12200.	0.	0.	44800.

FOR 1910-1939, DATA SHOWN FOR "CROPS" INCLUDES LIVESTOCK.

TABLE 5

FARM CASH FLOW AND INCOME RETURNS TO FACTORS (LABOR, MANAGEMENT, AND CAPITAL) (INCLUDING DATA FOR OPERATOR DWELLINGS)
1982 DOLLARS, CPI DEFLATOR
AMOUNTS IN MILLIONS OF DOLLARS

YEAR	GROSS INCOME	LESS: NONFACTOR OPERATING EXPENSES	EQUALS: CASH FLOW TO FACTORS	LESS: CAPITAL CONSUMPTION	EQUALS: INCOME RETURNS TO FACTORS	LESS: LABOR & MANAGEMENT RETURNS			EQUALS: INCOME RETURN TO CAPITAL*	LESS: INTEREST ON BORROWED FUNDS	EQUALS: INCOME RETURN TO EQUITY			ADDENDUM: TOTAL INCOME RETURN TO OPERATORS
						HIRED LABOR	IMPUTED OPERATORS' LABOR	IMPUTED OPERATORS' MANAGEMENT			TOTAL*	LANDLORDS	OPERATORS*	
1910...	79664.	16888.	62776.	4310.	58466.	7822.	28970.	2670.	19003.	4248.	14755.	3315.	11439.	43080.
1911...	71727.	16701.	55026.	4590.	50436.	7853.	30497.	2610.	9476.	4528.	4948.	3429.	1519.	34626.
1912...	82448.	17596.	64852.	4692.	60161.	7893.	31133.	2687.	18448.	4732.	13716.	3431.	10285.	44105.
1913...	74752.	17885.	56867.	4698.	52169.	7853.	30512.	2726.	11078.	5050.	6028.	3321.	2707.	35945.
1914...	78484.	17891.	60593.	4645.	55948.	7749.	30509.	2606.	15084.	5204.	9880.	3421.	6459.	39573.
1915...	80035.	17769.	62267.	5000.	57266.	7777.	29332.	2755.	17402.	5373.	12029.	3846.	8184.	40270.
1916...	82550.	19420.	63130.	5296.	57834.	8020.	29638.	3091.	17085.	5429.	11655.	4737.	6918.	39647.
1917...	108002.	20647.	87355.	5394.	81961.	8514.	32989.	3667.	36791.	5235.	31556.	6233.	25323.	61979.
1918...	104809.	23427.	81382.	5802.	75580.	8600.	36367.	3808.	26805.	4934.	21872.	5525.	16346.	56521.
1919...	96976.	22189.	74788.	5824.	68963.	8485.	36230.	3605.	20643.	4962.	15681.	5197.	10484.	50320.
1920...	80416.	20457.	59959.	5855.	54104.	8655.	37206.	2641.	5602.	5323.	278.	2437.	-2158.	37689.
1921...	54166.	16096.	38070.	5623.	32447.	6332.	24325.	1934.	-144.	6230.	-6374.	1645.	-8019.	18240.
1922...	63319.	17585.	45734.	5397.	40337.	6513.	26915.	2190.	4718.	6599.	-1881.	2127.	-4008.	25098.
1923...	68818.	18905.	49913.	5354.	44560.	7102.	30917.	2391.	4150.	6245.	-2095.	2441.	-4536.	28772.
1924...	69703.	20823.	48881.	5394.	43487.	7071.	32164.	2492.	1760.	5961.	-4201.	2946.	-7147.	27509.
1925...	77808.	20650.	57158.	4818.	52340.	7001.	32479.	2666.	10193.	5531.	4662.	2597.	2065.	37210.
1926...	72848.	20548.	52300.	4850.	47451.	7280.	32387.	2537.	5247.	5348.	-101.	2326.	-2428.	32497.
1927...	73423.	21200.	52224.	4965.	47258.	7264.	31591.	2615.	5788.	5300.	488.	2901.	-2413.	31794.
1928...	77608.	23269.	54339.	5089.	49249.	7295.	32791.	2665.	6498.	5327.	1171.	2805.	-1633.	33822.
1929...	78129.	22795.	55334.	5180.	50154.	7351.	32826.	2796.	7180.	5265.	1915.	2748.	-833.	34789.
1930...	65000.	20916.	44084.	5541.	38543.	6829.	31352.	2292.	-1930.	5141.	-7071.	1862.	-8933.	24711.
1931...	56500.	17762.	38737.	5446.	33292.	5815.	26706.	1807.	-1036.	5338.	-6373.	865.	-7238.	21276.
1932...	46210.	16016.	30195.	5206.	24988.	4745.	21550.	1492.	-2799.	5440.	-8239.	390.	-8629.	14413.
1933...	51687.	16987.	34700.	4815.	29885.	4613.	20007.	1761.	3503.	4987.	-1484.	1181.	-2665.	19103.
1934...	55256.	18296.	36961.	4702.	32258.	4912.	19092.	2037.	6217.	4348.	1869.	1852.	17.	21146.
1935...	73365.	19735.	53630.	4687.	48943.	5470.	21336.	2216.	19920.	3769.	16151.	2449.	13702.	37254.
1936...	69554.	22111.	47444.	5089.	42355.	6068.	21595.	2570.	12122.	3495.	8627.	2677.	5950.	30116.
1937...	82193.	23849.	58344.	5370.	52974.	6666.	25863.	2607.	17838.	3232.	14607.	2564.	12043.	40513.
1938...	70676.	22782.	47894.	5726.	42168.	6730.	23202.	2337.	9899.	3272.	6627.	2186.	4441.	29979.
1939...	74478.	25335.	49143.	5446.	43696.	6890.	23618.	2327.	10861.	3382.	7479.	2643.	4836.	30781.
1940...	78327.	28354.	49973.	5505.	44468.	7107.	22587.	2372.	12402.	3309.	9093.	3094.	5999.	30958.
1941...	93878.	29701.	64177.	5723.	58454.	8216.	26069.	3087.	21081.	3289.	17792.	4256.	13536.	42693.
1942...	118257.	33897.	84361.	7936.	76425.	9676.	31906.	3883.	30960.	2885.	28074.	5291.	22784.	58573.
1943...	130735.	37668.	93067.	7667.	85400.	11352.	39800.	4442.	29806.	2670.	27137.	5647.	21490.	65732.
1944...	132323.	39942.	92381.	7844.	84537.	12121.	47814.	4761.	19840.	2240.	17599.	5741.	11858.	64433.
1945...	136568.	43052.	93516.	7051.	86465.	12376.	48460.	4821.	20810.	2099.	18711.	5727.	12985.	66266.
1946...	146627.	44512.	102115.	5896.	96219.	12556.	46618.	5110.	31936.	1994.	29941.	6948.	22993.	74722.
1947...	140436.	46841.	93595.	6734.	86861.	12068.	39384.	5311.	30098.	1904.	28195.	6309.	21885.	66580.
1948...	146676.	48029.	98646.	8055.	90591.	12031.	37412.	4957.	36191.	1976.	34216.	5512.	28703.	71073.
1949...	124987.	45364.	79623.	9609.	70014.	11401.	33363.	4724.	20527.	2190.	18337.	4498.	13839.	51925.
1950...	133191.	48878.	84314.	10723.	73591.	11310.	30714.	4662.	26905.	2406.	24499.	4961.	19538.	54914.
1951...	142746.	53023.	89722.	11735.	77988.	10892.	32818.	4895.	29384.	2580.	26803.	5101.	21702.	59415.
1952...	137756.	52605.	85151.	12137.	73014.	10425.	32445.	4795.	25349.	2810.	22540.	5185.	17354.	54594.
1953...	124758.	48118.	76639.	12509.	64130.	9909.	31567.	4692.	17961.	2814.	15147.	4397.	10750.	47010.
1954...	123179.	49303.	73876.	12905.	60971.	9355.	29497.	4390.	17729.	2851.	14879.	4177.	10702.	44589.
1955...	121090.	50478.	70612.	13384.	57228.	9459.	28531.	4353.	14884.	3053.	11831.	3823.	8008.	40893.
1956...	121026.	51038.	69988.	13268.	56719.	9412.	27453.	4436.	15418.	3247.	12171.	3952.	8219.	40108.
1957...	119715.	51778.	67938.	13466.	54472.	9408.	24082.	4086.	16896.	3376.	13520.	3541.	9979.	38147.
1958...	130505.	55910.	74595.	13436.	61159.	9520.	22987.	4391.	24260.	3638.	20622.	3889.	16733.	44111.
1959...	125909.	58887.	67022.	14126.	52896.	9657.	22862.	4355.	16022.	4061.	11961.	3579.	8382.	35600.
1960...	127206.	57255.	69951.	14184.	55767.	10015.	21060.	4446.	20246.	4405.	15841.	3676.	12164.	37670.
1961...	131280.	59046.	72234.	14207.	58026.	10335.	19795.	4480.	23417.	4620.	18796.	4358.	14438.	38713.
1962...	135582.	62167.	73415.	14505.	58910.	10563.	18475.	4511.	25361.	5021.	20340.	4697.	15643.	38629.
1963...	137198.	63676.	73522.	14856.	58665.	10756.	18024.	4565.	25320.	5539.	19781.	5134.	14647.	37235.
1964...	132103.	62020.	70083.	15311.	54772.	10876.	16758.	4590.	22548.	5964.	16584.	5168.	11416.	32764.
1965...	142998.	64401.	78597.	15690.	62907.	11064.	14606.	4724.	32513.	6456.	26057.	5790.	20268.	39598.
1966...	150625.	68878.	81747.	16069.	65678.	10992.	14184.	4998.	35505.	6984.	28521.	6038.	22483.	41665.
1967...	146559.	70201.	76357.	16771.	59587.	10800.	14962.	4749.	29076.	7531.	21545.	5460.	16085.	35795.
1968...	144346.	68533.	75813.	17261.	58552.	10914.	14809.	4754.	28076.	7768.	20308.	5565.	14743.	34305.
1969...	145036.	65405.	79630.	17369.	62261.	10970.	14412.	4869.	32010.	8082.	23928.	5445.	18482.	37763.
1970...	146330.	69452.	76878.	16877.	60001.	10826.	13294.	4759.	31122.	8434.	22688.	5228.	17460.	35510.
1971...	146202.	69277.	76926.	17588.	59338.	10456.	13297.	4732.	30852.	8493.	22360.	5061.	17299.	35329.
1972...	164433.	75044.	89389.	18274.	71115.	10551.	12598.	5330.	42640.	9027.	33613.	7770.	25843.	43772.
1973...	215363.	89502.	125861.	19509.	106352.	11262.	11933.	7149.	76008.	10257.	65751.	11985.	53766.	72848.
1974...	192554.	87668.	104886.	20759.	84127.	11932.	11663.	7144.	53388.	11368.	42020.	9758.	32262.	51069.
1975...	181770.	82385.	99384.	22643.	76742.	11852.	10065.	6392.	48432.	11300.	37132.	8156.	28978.	45435.
1976...	173493.	86281.	87212.	23477.	63735.	12778.	8770.	6389.	35798.	11987.	23811.	7211.	16601.	31761.
1977...	173597.	85700.	87896.	25121.	62775.	12712.	8796.	6007.	35261.	13324.	21937.	7277.	14660.	29464.
1978...	180912.	85198.	95715.	25765.	69950.	12394.	7986.	6523.	43048.	14809.	32239.	7172.	25066.	39573.
1979...	201922.	95862.	106060.	26269.	79791.	12582.	7093.	6756.	53359.	16918.	36442.	7126.	29316.	43163.
1980...	177034.	90006.	87028.	25863.	61164.	12238.	6109.	6487.	36330.	18530.	17800.	6744.	11057.	23656.
1981...	177588.	85734.	91854.	25324.	66530.	11836.	5613.	6158.	42924.	20997.	21926.	6953.	14978.	26749.
1982...	163200.	80100.	83100.	25200.	57900.	11200.	5843.	5700.	35157.	21900.	13257.	5800.	7457.	19000.

TABLE 6

AMOUNT AND DISPOSITION OF FUNDS FROM FARM CASH FLOW AND BORROWING (INCLUDING DATA FOR OPERATOR DWELLINGS)
1982 DOLLARS, CPI DEFLATOR
AMOUNTS IN MILLIONS OF DOLLARS

YEAR	GROSS INCOME	LESS: NONFACTOR OPERATING EXPENSES AND HIRED LABOR	EQUALS: CASH FLOW TO OPERATORS AND LANDLORDS	LESS: DEBT SERVICE AND REPAYMENT: INTEREST PAID	NET DEBT REPAYMENT	EQUALS: FUNDS FOR INVESTMENT, TRANSFERS, AND NONFARM USES	LESS: FARM INVESTMENT: CAPITAL EXPENDITURES: BUILDINGS	MACHINERY	ADDED TO INVENTORY: LIVESTOCK	CROPS	EQUALS: FUNDS FOR FARM TRANSFERS AND NONFARM USES
1910...	79660.	20710.	58953.	4248.	-4206.	58911.	2665.	3056.	0.	3196.	47213.
1911...	71727.	24555.	47172.	4528.	-5432.	48077.	2331.	3160.	0.	-2694.	45279.
1912...	82048.	25089.	56960.	4732.	-6598.	58826.	2441.	3161.	0.	5792.	47432.
1913...	74752.	25738.	49014.	5050.	-5385.	49350.	2383.	3000.	0.	-2590.	46556.
1914...	78404.	25560.	52844.	5204.	-3376.	51014.	2352.	3238.	0.	4019.	41405.
1915...	80035.	25546.	54489.	5373.	-4682.	53799.	2185.	3636.	0.	3120.	44857.
1916...	82558.	27448.	55110.	5429.	-9931.	59612.	2876.	3513.	0.	-2999.	56223.
1917...	108002.	29161.	78841.	5235.	-10345.	83950.	3392.	3520.	0.	7449.	69589.
1918...	104809.	32027.	72782.	4833.	-8935.	76884.	3075.	3081.	0.	-904.	71632.
1919...	96976.	30673.	66303.	4962.	-15605.	76946.	3657.	3495.	0.	-2851.	72645.
1920...	80416.	29112.	51304.	5323.	-12115.	58096.	2737.	4028.	0.	3326.	48005.
1921...	54166.	22429.	31739.	6230.	328.	25181.	1207.	1759.	0.	-3058.	25273.
1922...	63319.	24098.	39221.	6599.	3226.	29395.	1555.	2016.	0.	-509.	26333.
1923...	68818.	26007.	42811.	6245.	3382.	33184.	1800.	2753.	0.	-255.	28887.
1924...	69703.	27894.	41810.	5961.	5773.	30076.	1688.	2442.	0.	-2737.	28682.
1925...	77808.	27651.	50157.	5531.	2299.	42326.	1718.	2940.	0.	2017.	35651.
1926...	72848.	27828.	45020.	5348.	1760.	37913.	1626.	3103.	0.	38.	33146.
1927...	73423.	28463.	44960.	5220.	786.	38954.	1980.	2951.	0.	-976.	34999.
1928...	77688.	30744.	46944.	5227.	379.	41338.	1872.	3308.	0.	792.	35366.
1929...	78129.	30147.	47982.	5263.	2408.	40310.	1736.	3727.	0.	-690.	35537.
1930...	65000.	27745.	37255.	5149.	4396.	27710.	1120.	3040.	0.	-1561.	25111.
1931...	56500.	23577.	32923.	5336.	5911.	21676.	617.	1979.	0.	2928.	16152.
1932...	46210.	20761.	25449.	5440.	9830.	10179.	262.	1114.	0.	780.	8023.
1933...	51687.	21600.	30087.	4987.	10202.	14897.	426.	1847.	0.	-1851.	14475.
1934...	55256.	23208.	32048.	4348.	4165.	23535.	506.	2293.	0.	-6728.	27464.
1935...	73365.	25206.	48159.	3765.	3204.	41190.	952.	3162.	0.	4927.	32148.
1936...	69556.	28178.	41376.	3415.	1879.	36082.	1481.	4313.	0.	-5634.	36162.
1937...	82192.	30514.	51678.	3232.	219.	48226.	1599.	4798.	0.	5505.	36324.
1938...	70676.	29512.	41164.	3272.	-1199.	39091.	1499.	3527.	0.	907.	33158.
1939...	74478.	32225.	42253.	3383.	-75.	38945.	1882.	3912.	0.	662.	32489.
1940...	78327.	35461.	42866.	3305.	-1730.	41291.	2180.	4317.	408.	1453.	32933.
1941...	93878.	37917.	55961.	3289.	-112.	52784.	2171.	6137.	2013.	750.	41713.
1942...	110257.	35592.	74665.	2865.	4346.	67454.	2039.	5665.	3359.	3174.	53217.
1943...	130735.	49020.	81715.	2471.	4732.	74512.	2117.	3679.	2036.	-2733.	69413.
1944...	132323.	52064.	80259.	2248.	3410.	74600.	2521.	6622.	-3534.	1277.	67714.
1945...	136568.	55426.	81142.	2099.	178.	78865.	2821.	4448.	-1319.	-1846.	72159.
1946...	146627.	57068.	89559.	1994.	-3570.	91136.	5757.	5120.	-2375.	2519.	80107.
1947...	140436.	58909.	81527.	1964.	-3595.	83119.	6218.	8649.	-2528.	-5106.	75886.
1948...	146676.	60060.	86616.	1976.	-4281.	88921.	6399.	11643.	-225.	7193.	63911.
1949...	124987.	56765.	68222.	2190.	-2092.	68125.	6373.	12815.	796.	-4315.	52456.
1950...	133193.	60189.	73004.	2806.	-6455.	76653.	6124.	12682.	2441.	826.	54580.
1951...	142746.	63915.	78830.	2580.	-6775.	83025.	5962.	12383.	3793.	622.	60265.
1952...	137756.	63030.	74725.	2810.	-3142.	75057.	5998.	10822.	2116.	1209.	54988.
1953...	124758.	58027.	66730.	2814.	1347.	62569.	5530.	11593.	-294.	-1962.	47702.
1954...	123179.	58658.	64521.	2851.	-3233.	64903.	5135.	9871.	938.	832.	48128.
1955...	121090.	59937.	61153.	3053.	-5357.	63457.	5010.	9983.	65.	712.	47686.
1956...	121026.	60451.	60575.	3247.	-3065.	60394.	4961.	8575.	-1230.	-395.	48483.
1957...	119715.	61186.	58529.	3276.	-4766.	60019.	4856.	8644.	-726.	2852.	44393.
1958...	130505.	65430.	65075.	3630.	-4633.	66078.	4549.	10552.	1931.	831.	48215.
1959...	123909.	66544.	57365.	4061.	-8089.	61393.	5096.	11345.	1309.	-1343.	44986.
1960...	127206.	67269.	59937.	4405.	-3856.	59387.	5514.	9164.	291.	1007.	43410.
1961...	130280.	68381.	61899.	4620.	-5864.	63142.	5661.	9279.	1204.	-117.	47115.
1962...	135582.	72730.	62852.	5021.	-8748.	66579.	5866.	10216.	1873.	112.	48513.
1963...	137198.	74433.	62765.	5539.	-9899.	67125.	5967.	11152.	1253.	737.	48017.
1964...	132103.	72897.	59207.	5964.	-8740.	61983.	5589.	11773.	-119.	-2033.	46772.
1965...	142898.	75365.	67533.	6456.	-12246.	73323.	5913.	12029.	-537.	3736.	52182.
1966...	150625.	79870.	70755.	6984.	-10810.	74581.	6199.	13762.	660.	-907.	54868.
1967...	146559.	81002.	65557.	7531.	-9008.	67033.	6713.	14088.	238.	1668.	44326.
1968...	144364.	79466.	64899.	7768.	-5034.	62165.	5894.	12668.	687.	-262.	43178.
1969...	149034.	80375.	68660.	8002.	-6702.	67360.	6182.	11955.	587.	-325.	48960.
1970...	146330.	80278.	66052.	8434.	-5630.	63248.	5919.	12260.	1659.	-1604.	45014.
1971...	148202.	81733.	66470.	8493.	-10150.	68127.	5957.	11654.	1100.	2241.	47174.
1972...	164433.	85595.	78839.	9027.	-15512.	85324.	5492.	13185.	1030.	963.	64653.
1973...	215363.	100763.	114599.	10257.	-21436.	125778.	6693.	16667.	3962.	3461.	94994.
1974...	192554.	99600.	92954.	11366.	-15962.	97550.	6648.	18096.	892.	-4056.	75970.
1975...	181770.	94238.	87532.	11300.	-16125.	92357.	8442.	15572.	-1879.	7998.	62224.
1976...	173493.	99059.	74434.	11987.	-18966.	81413.	8575.	17010.	-1160.	-2865.	59854.
1977...	173597.	98412.	75185.	13324.	-21039.	82900.	9461.	16912.	-2016.	3569.	54975.
1978...	168812.	81591.	87221.	14309.	-23424.	96336.	10263.	18913.	-2079.	3669.	65569.
1979...	201922.	108445.	93478.	16916.	-30086.	106648.	8971.	19063.	1142.	6348.	71124.
1980...	177034.	102244.	74790.	18530.	-19746.	76007.	6152.	15290.	1573.	-6618.	59610.
1981...	177580.	97570.	80010.	20997.	-17747.	76760.	6661.	13626.	297.	5590.	50586.
1982...	163200.	91300.	71900.	21900.	-13000.	63000.	6000.	12200.	0.	0.	44800.

FOR 1910-1939, DATA SHOWN FOR "CROPS" INCLUDES LIVESTOCK.

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Testimony Presented By
Daniel Ballard, Economist in
The U.S. Agriculture Service,
Chase Econometrics
Bala Cynwyd, Pennsylvania 19004

AGRICULTURAL ECONOMY - RECESSION OR DEPRESSION?

The significant and extended weakness in U.S. agriculture has caused considerable concern regarding the economic vitality of U.S. farmers. Realized net farm income, deflated by 1967 prices paid by farmers, dropped from $10.7 billion in 1979 to approximately $6.5 billion in 1981. A second consecutive record grain harvest and continued weak growth in the U.S. economy are expected to result in the fourth consecutive decline in constant-dollar net farm income in 1982. The rather extreme decline in real farm purchasing power has caused considerable concern in the agricultural community and has significantly reduced the purchases of major farm input items.

If realized net farm income is deflated by prices paid by farmers (1967=100) then the 1981 realized net farm income, as does the prospective figure for 1982, rivals the depression levels of the 1930s, **Table 1**. For example, realized net farm income in 1931 was $8.8 billion (1967$). It then collapsed to $6.2 billion in 1932 and remained below $8.5 billion through 1934 before rebounding to average $13.4 billion from 1935 to 1939. However, during the depresson of the 1930s there were 30-33 million people residing on 6.6 million farms. Thus, realized net farm income per capita was only $285 (1967$) in 1931 and collapsed to $196 in 1932. Realized net farm income per farm averaged $1165 from 1931 to 1934. Today only 7 million people reside on 2.67 million farms. Constant dollar realized net farm income per capita, therefore, increased to $914 (1967$) in 1981 or $2444 per farm, although the aggregate figure is comparable to that of 1932.

During the decade of the 1970s realized net farm income per capita reached an all time record high $2185 (1967$) in 1973 when Russian grain purchases reduced U.S. grain stocks to a 20 year low. Farm income per capita subsequently dropped to a low of $1101 (1967$) in 1977 when bumper crops collapsed wheat and corn prices to $2.25/bu and $1.60/bu, respectively. The decade of the seventies was, however, the most profitable decade in the history of U.S. agriculture. During the past decade per capita realized net

TABLE 1
U.S. AGRICULTURAL ECONOMY IN THE DECADE OF THE 1930'S[a]

	Realized Net Farm Income					Realized Net Farm Income Constant $	
	Current $	Constant $	Prices Paid by Farmers	Farm Pop.	No. of Farms	Per Capita	Per Farm
	- - -Bil. - - -		1967=100	- - -Mil.- - -		- - - - 1967$ - - - -	
1930	4.3	9.7	44	30.53	6.29	317	1539
1931	3.3	8.8	38	30.84	6.61	285	1330
1932	2.0	6.2	33	31.39	6.69	196	919
1933	2.6	8.0	32	32.39	6.74	246	1182
1934	2.9	8.3	35	32.30	6.78	258	1230
1935	5.3	14.7	36	32.16	6.81	456	2154
1936	4.3	12.0	36	31.74	6.74	377	1776
1937	6.0	15.8	38	31.27	6.64	505	2378
1938	4.4	12.1	36	30.98	6.52	391	1857
1939	4.4	12.3	36	30.84	6.44	410	1902
Average:							
1930-34	3.0	8.2	36	31.49	6.62	260	1240
1935-39	4.9	13.4	36	31.40	6.63	428	2013
1930-39	4.0	10.8	36	31.44	6.63	344	1627

---

a) Constant dollar figures deflated by prices paid by farmers

TABLE 2
U.S. AGRICULTURAL ECONOMY IN THE DECADE OF THE 1970'S[a]

	Realized Net Farm Income					Realized Net Farm Income Constant $	
	Current $	Constant $	Prices Paid by Farmers	Farm Pop.	No. of Farms	Per Capita	Per Farm
	- - -Bil. - - -		1967=100	- - -Mil.- - -		- - - - 1967$ - - - -	
1970	14.1	12.6	112	9.71	2.95	1278	4271
1971	13.2	11.3	118	9.42	2.90	1200	3896
1972	17.8	14.3	125	9.61	2.87	1488	4983
1973	29.9	20.7	144	9.47	2.84	2185	7289
1974	27.7	17.0	164	9.26	2.83	1836	6007
1975	21.0	11.7	180	8.86	2.81	1321	4164
1976	21.1	11.0	192	8.25	2.78	1333	3957
1977	17.2	8.6	202	7.81	2.77	1101	3105
1978	25.9	11.8	219	8.00	2.74	1475	4307
1979	26.7	10.7	250	7.55	2.70	1417	3963
1980	24.4	8.7	281	7.34	2.67	1185	3258
1981[b]	19.6	6.5	304	7.11	2.66	914	2444
1982*	17.7	5.6	315	6.93	2.65	808	2113
1983*	18.2	5.5	334	6.71	2.64	820	2083
Average:							
1970-81	21.55	11.53	191	8.80	2.81	1394	4303

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[a] Constant dollar figures deflated by prices paid by farmers
[b] Preliminary
*CE Projections

farm income (1967$) averaged $1394 or $4303 per farm. The 1981 estimate of per capita farm income is 34% below the average for the 1970s, and the Chase Econometrics projection for 1982 is 42% below the decade's average. Thus, it is apparent that farmers are currently suffering through the most severe downturn in real farm income since the 1930s.

FARM INCOME OUTLOOK

The downturn which led to the current recession in the farm economy was initiated in 1980, as constant dollar farm cash receipts fell nearly 6.0% to $49.6 billion, Table 3. The weakness in cash receipts was then concentrated in the livestock sector, with 1980 livestock cash receipts (1967$) 8.8% below the previous year's level. The livestock sector in 1980 was influenced by a 3.0% expansion in total meat production (74% of which was increased pork production) and a decline in per capita disposable income for the first time since 1974. Real crop receipts in 1980, were, by contrast, at the highest level since 1974; crop cash receipts were strengthened by the 1980 drought, which significantly reduced crop production. Real livestock cash receipts further declined additional 6.2% in 1981 due to an additional 1.0% advance in meat production and sluggish growth in real consumer income. Crop cash receipts (1967$) fell 2.7% in 1981 but remained supported by the 1980 drought-reduced supplies. If not for the poor grain, soybean and cotton yields of 1980 the crop sector would have weakened dramatically in 1981, since domestic and foreign demand were already waning.

The economic farm setting for 1982 has been quite different. In response to the dismal livestock situation of 1981, meat production has been cut back and livestock prices have increased markedly. As a consequence of lowered livestock production, feed demand has been reduced as well. The weak domestic demand and larger supply

TABLE 3
CONSTANT DOLLAR FARM CASH RECEIPTS, FIVE YEAR AVERAGES 1955-1979, ANNUAL 1970 TO 1983[a]

Period-Year	Total	Livestock	Crops
	- - - - - - -	-Bil. 1967$-	- - - - - - -
1955-59	37.4	20.9	16.5
1960-64	40.3	21.9	18.4
1965-69	43.2	24.8	18.4
1970-74	51.2	27.6	23.6
1975-79	49.9	25.1	24.8
1970	45.0	26.3	18.7
1971	45.0	26.0	19.0
1972	49.1	28.6	20.5
1973	60.3	31.8	28.5
1974	56.6	24.3	31.3
1975	48.9	23.9	25.0
1976	49.4	24.1	25.4
1977	47.4	23.4	24.0
1978	51.1	26.7	24.4
1979	52.7	27.4	25.2
1980	49.6	24.1	25.5
1981[b]	47.4	22.6	24.8
1982*	45.4	22.6	22.8
1983*	44.9	22.5	22.5

---

[a] Deflated by prices paid by farmers

[b] Preliminary

*CE projection

TABLE 4
U.S. FARM INCOME BALANCE SHEET
1979 - 1983

	1979	1980	1981	1982*	1983*
	BILLION DOLLARS				
CASH RECEIPTS:					
LIVESTOCK	68.6	67.8	68.5	71.3	75.1
CROPS	63.1	71.7	75.0	71.8	75.0
TOTAL	131.7	139.5	143.5	143.1	150.1
GOVERNMENT PAYMENTS	1.4	1.3	1.9	4.0	4.0
NON-MONEY & OTHER	12.6	14.1	15.8	17.0	18.4
REALIZED GROSS	145.7	154.9	161.2	164.1	172.5
EXPENSES	119.0	130.4	141.6	146.4	154.3
REALIZED NET	26.7	24.4	19.6	17.7	18.2

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* CE PROJECTIONS

situation, combined with poor export demand, shifted the agricultural recession well into the crop sector in 1982. While livestock cash receipts (1967$) in 1982 are expected to hold even with the year-ago level, crop cash receipts are forecast to decline 8.1%. Consequently, total cash receipts in 1982 are forecast 4.2% below the 1981 level.

The outlook for 1983 is for further weakening in the crop sector due to the second consecutive bumper crop. The impact on the crop sector of the record harvest will be magnified by the relatively low participation rates in the government's 1982 reduced acreage programs (RAP); producers not in compliance with the RAP are currently ineligible for government support programs. We believe that the low eligibility for government support programs will result in the respective crops' price support levels proving to be ineffective floors. Real crop cash receipts are consequently expected to decline an additonal 1.0% in 1983. Total farm cash receipts (1967$) are forecast to decline about $0.5 billion in 1983 to $44.9 billion.

USDA REPORT FREQUENCY

The current USDA policy regarding the frequency and the forecast horizon of U.S. farm income estimates has been seriously questioned by all segments of the agricultural community. In the past the USDA followed an unofficial policy of releasing monthly farm income estimates. Early in 1982 the agriculture department developed an official policy: The first estimate of the previous year's income will be released in July, and this will be folowed in September by the single forecast of current year farm income. The USDA, however, continues to prepare income projections on a more frequent basis, supplying the Commerce Department with this information quarterly. Thus, unlike the justification offered by the USDA in the sweeping cutbacks in basic data collection, the altered release schedule for farm income does not represent a cost reduction for the Federal government. The rationale offered by the USDA for the reduced frequency of reporting is that forecasting is an inexact science and the relevance of the numbers may therefore be overstated. Despite the inaccuracy inherent in long-range projections, systematic, professional analysis is indispensable to the agricultural economy: the current-difficult economic climate actually increases the importance of timely information and analyses on the health of agriculture.

Farm income information is vital to at least three major segments of the U.S. economy: agribusiness, governmental agencies, and legislatures. The agribusiness sector needs farm income information in order to provide farmers with farm input supplies, especially tractors, buildings and other capital goods. When farm demand for tractors or other machinery expands, farm equipment manufacturers need lead-time to order raw materials, produce the equipment and then distribute it to retailers. Conversely, farm supply manufacturers needs to be forewarned of an impending deterioration in farm income in order to reduce production and thereby prevent an excessive and costly accumulation of inventory.

We in the agribusiness-consulting industry are constantly asked to make such information available to the farm supply industry. Monthly updates by the USDA provide a valuable input into our analysis. In addition, many small manufacturer's total sales do not warrant the purchase of consultant services. The small agricultural firms who rely upon USDA farm income analysis for their planning functions are now operating in an information void; Their position in agricultural markets relative to that of the larger agricultural concerns is thereby weakened.

Governmental agencies require frequent farm income updates to facilitate more effective administration of agricultural programs. There are undeniably problems associated with the USDA's farm income estimates; however, we have found it to be a very useful gauge of the health of the farm economy. We, therefore, believe that monthly farm income estimates government agencies are better able to administer the programs that Congress has legislated in a manner consistent with the intent of Congress.

The legislatures require a constant monitor of the agricultural economy to develop, in a timely fashion, those programs best suited toward the maintenance of a strong, growth-oriented agriculture industry. Congressional legislation strongly impacts farm production and marketing decisions. The importance of constant expert analyses and forecasts of the agricultural sectors is highlighted by the inherent lags in livestock and crop production. Consequently, legislators need to have a good handle on prospects for the future in order to pass effective legislation today. In summary, we recognize the difficulty of one indicator measuring the health of such a diverse economy. Nonetheless, the farm income estimates provided by USDA are valuable indicators of the direction of economic adjustment in agriculture. Thus, it is the opinion of Chase Econometrics that the USDA ought to increase the frequency of its farm income estimates to facilitate informed agricultural decision-making.

Richard C. Pottorff
Manager
Agriculture Service
Data Resources, Inc.

For more than a year we have been extremely concerned about the developments in U.S. agriculture and the precipitous decline in farm income. There is no single factor that has caused the current agriculture crisis, but rather a complex set of developments concerning both the supply and demand for agricultural products. Although the developments are complex, it is not fair to say that these events were unforeseeable. It is extremely doubtful that any single agriculture policy can correct the current calamity and restore long-run economic health to the agriculture industry. In the current uncertain environment, information and projections take on special significance as individuals and companies involved in agriculture attempt to make planning decisions. I would like to address my testimony to two separate but related issues. The first is the continuing crisis in U.S. agriculture, and the second concerns the pending legislation that would require the USDA to provide farm income projections on a prescribed schedule.

The Farm Crisis of the 1980's

There is no doubt that the financial situation in U.S. agriculture in 1982 is serious indeed. Farm income will slip to extremely low levels this year following seriously low levels in 1980 and 1981. Some of the important factors responsible for the crisis include:

(1) Large crop production levels in 1979, 1981, and 1982.
(2) The cessation of grain sales to the Soviet Union in 1980.
(3) Recession in the U.S. and world economies.
(4) The strength of the dollar.
(5) Rising interest costs.
(6) Economic difficulties for several key trading partners.

Troubling as the current situation is, and difficult as the past three years have been, it is important that we focus on the future and the combination of policies and developments that will return U.S. agriculture to sound economic footing.

Steps are being taken to reduce crop production levels. The policies now being implemented will, no doubt, reduce acreage and will probably reduce production. Such programs have always had somewhat limited success for a variety of reasons, and some of these problems are unavoidable while retaining the individual farmers' autonomy. However, some of the ineffectiveness of the programs are self-imposed and should be revised. For example, farmers should be required to certify compliance earlier, and some of the flexibility should be curtailed.

Much has been written about the Soviet grain sales suspension imposed in 1980. This policy decision had and will continue to have serious long-run implications for U.S. agriculture. The loss of a major portion of a very important market was a serious development, but the resulting increase in production capacity in other exporting countries is even more serious. Production capacity in the major exporting countries has increased significantly in recent years, and the major incentive for much of the expansion in Argentina can be traced to this decision.

The ongoing period of slow growth in the U.S. and developed market economies has influenced farm income for the last two years. It has influenced domestic demand for agriculture products and has influenced international trade in several ways. First, other developed countries have experienced the same sluggish demand for meat products experienced in the U.S., and this sluggish demand for meat products translates into reduced coarse grain imports. Slow economic growth in developed countries reduces export earnings by developing countries, forcing them to reduce imports. The current recession has been characterized by inordinately high real interest rates in the U.S., resulting in increases in the value of the dollar. The strong dollar has made U.S. agricultural commodities relatively more expensive, contributing to our role as residual supplier.

U.S. agricultural export growth during the last decade was truly phenomenal. If this rate of growth were to continue, policy makers would face a completely different set of problems. However, export growth is slowing and the underlying forces suggest that recovery is not imminent. The export growth of the 1970s was fueled by credit, and some of the countries most responsible for our export growth are the countries with the most severe credit problems. Mexico, Poland, Romania and Brazil were responsible for an important part of the growth (36% of the growth for corn exports and 16% of the growth for wheat exports). The Soviet Union and China were responsible for another significant portion (20% of the growth for corn and 60% of the growth for wheat)(Table 1). Export growth to these countries cannot be as large in the 1980s as it was in the 1970s. New markets must be developed and current markets expanded. Without continued export growth, grain stocks will continue to build and production controls will become the cornerstone of agriculture policy.

Table 1

U.S. Export Growth

Between 1976-77 and 1980-81

	Growth (Million Tonnes)	Percent Increase
CORN		
U.S. Total	17.0	40
Poland	1.5	127
Mexico	2.1	139
Romania	1.7	1744
Brazil	0.8	N.C.
USSR	2.7	88
China	0.7	N.C.
WHEAT		
U.S. Total	15.3	59
Poland	-0.3	-55
Mexico	1.1	N.C.
Romania	0.0	10
Brazil	1.5	242
USSR	0.4	15
China	8.7	N.C.

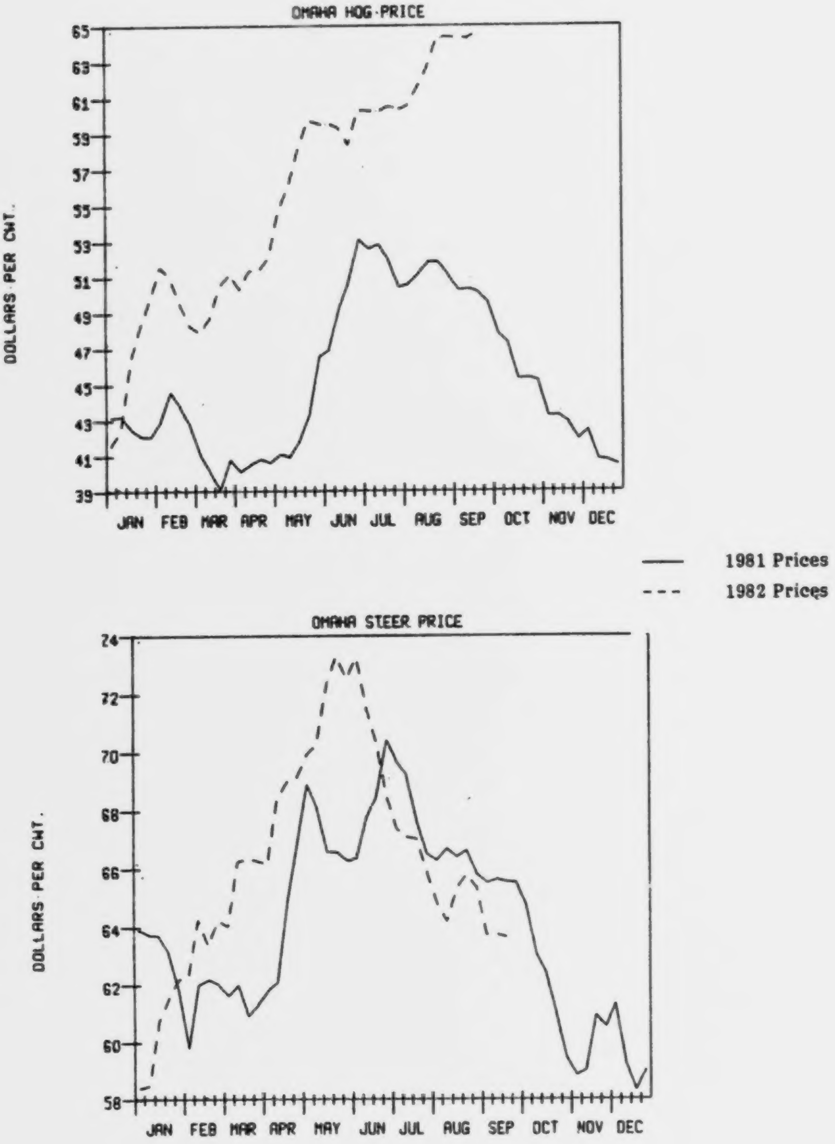
*N.C. indicates that growth cannot be computed because the country was not a customer in 1976-77.

No single agriculture policy can solve the complex quagmire that has developed. Many of the current problems go beyond the agriculture industry, and encompass overall economic and foreign policy issues. It is important to remember that policies amied at curtailing production attack only a part of the problem. At least equal attention must be focused on improving demand. Western banks have every reason to restrict credit to developing countries, and policy makers must decide if they want to expand public credit availability and assume some of the associated risks.

Farm Income Prospects

The outlook for U.S. farm income for 1982 and 1983 is not bright. Even if the 1983 acreage reduction program is a big success, it will have little impact on grain prices before late in 1983. Farm income in 1982, albeit extremely low, is being pumped up by advance government payments, in effect reducing payments in 1983. Commodity prices continue to decline. Of the major commodities, only hog prices are above year-ago levels at the present time (see charts). Looking beyond 1983, there is some reason for optimism for U.S. crop producers. Reduced production in 1983 should force wheat and corn prices up to the reserve release levels. It is, however, important to remember that farmers must repay their government loans when the grain is removed from the reserve, partially reducing cash receipts.

However, the relief for crop producers will probably coincide with increased pork production and lower livestock prices. The short-term outlook for agriculture calls for low net farm income through 1984 even if 1983 crop production is reduced significantly. I think it is important that policymakers focus on the longer-term prospects and implement policies that will stimulate overall economic growth, and international demand for U.S. products. The importance of our reliability as a trustworthy grain supplier cannot be ignored.



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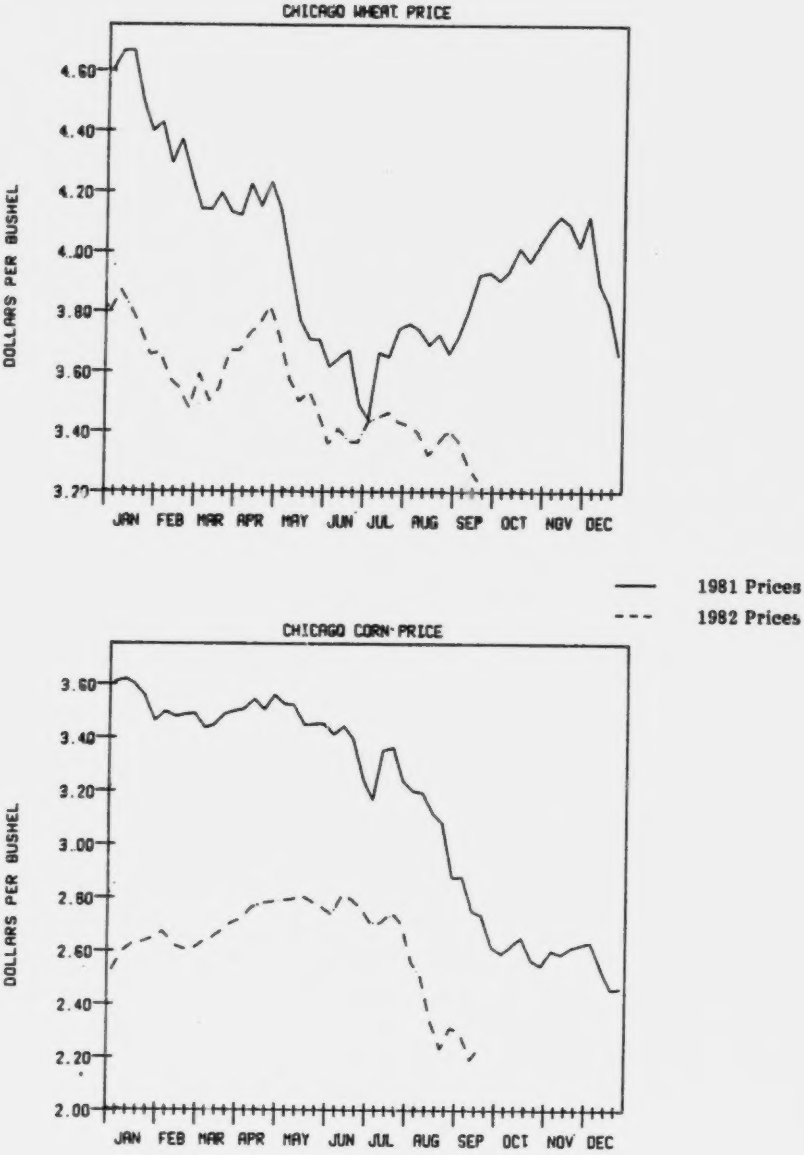

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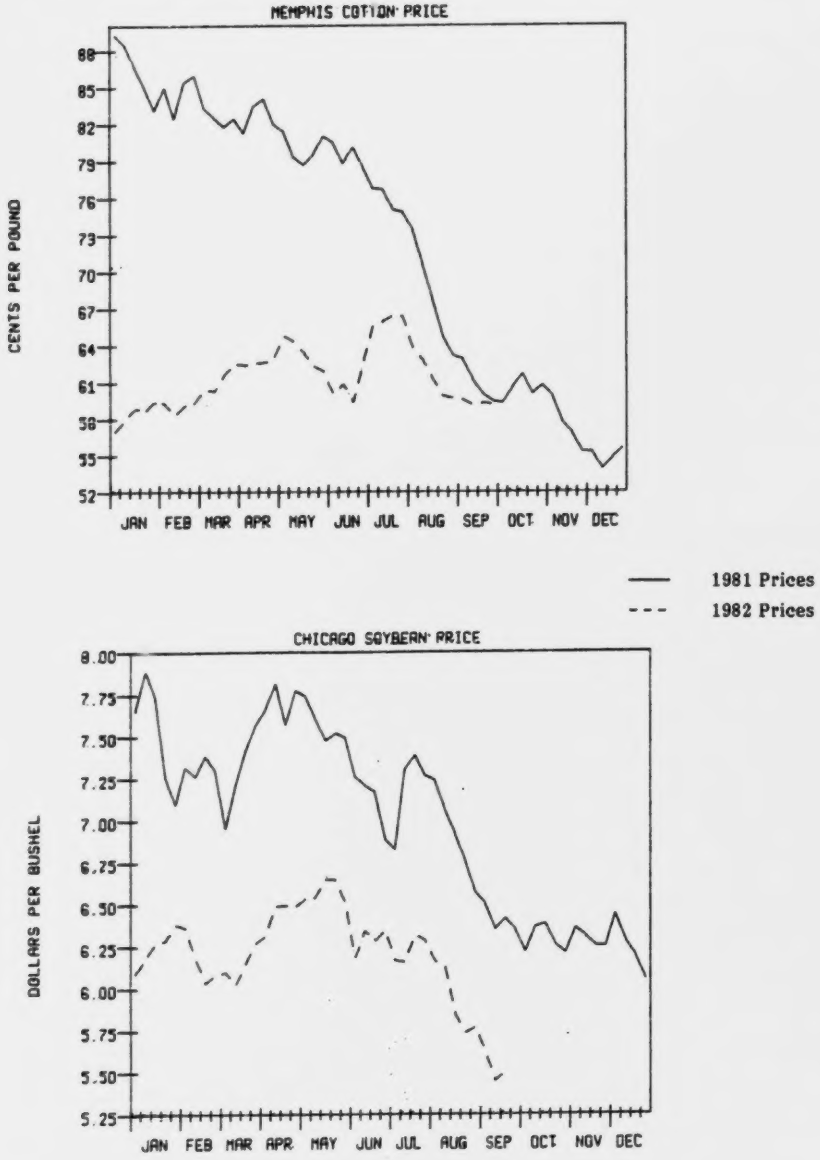

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Farm Income Forecasts

Uncertainty surrounding U.S. agriculture increased significantly during the 1970s. The volatility of agricultural markets has made planning more difficult for individuals and companies involved in the agriculture industry. I believe, without qualification, that companies need the best information available when planning in this uncertain environment.

Farm income estimates are primarily an accounting function. If you can project quantity and prices accurately, it follows that you can make projections of farm income. For nearly all of this year, the USDA has taken the contradictory stance of forecasting price and quantity of nearly all major agricultural commodities while saying that they are unable to make meaningful, accurate projections of farm income.

No one will argue that net farm income is easy to forecast or that the conditions in agriculture remain static enough to ensure that good forecasts do not turn out to be wrong. However, the evidence is clear that another dismal year for farm income in 1982 was apparent long before the USDA's recent estimate. In August of 1981, we discussed the evolving agriculture crisis, the poor commodity prices, and the projections for farm income in 1982 and 1983 (Exhibit I). The large crop in 1982 has resulted in a downward revision in the 1982 farm income estimate, but the overall condition of the agriculture industry is unchanged. In June of 1982, we again evaluated the condition in U.S. agriculture and found that the perceptions of last August remained accurate (Exhibit II). Over the course of the past year (August 1981 to August 1982), our estimates of 1982 net farm income have averaged $17.87 billion, but the recently reported infusion of government payments has increased income prospects to slightly above this average. Clearly, under the current circumstances, accurate and useful farm income forecasting is possible.

Perhaps more importantly, USDA assessment of the farm income situation was relatively accurate. At last year's USDA Agriculture Outlook Conference, USDA officials reported that in 1982, net cash income would probably decline 1 to 3 billion dollars from 1981 levels and the decline in net farm income would be slightly larger. These year-to-year changes in the financial situation in agriculture will probably be very realistic.

In summary, there are inaccuracies in any type of forecasting, and that is especially true in an industry that is markedly influenced by outside, unpredictable factors such as the weather. However, the need for information and projections based on the best available data is increased. Since the USDA provides price and quantity forecasts, it is a logical extension for them to provide forecasts of farm income.

Thank you.

Exhibit I
August, 1981

THE CRISIS IN U.S. AGRICULTURE

by Richard Pottorff

The farm sector of the U.S. economy is teetering on the brink of a depression reminiscent of the 1930s. The outlook for farm income and profitability has gone beyond dismal and would have to be termed catastrophic. Net farm income in 1980 fell to about $20 billion, down sharply from 1978 and 1979, but when this $20 billion is adjusted for inflation, farmers received less in income than they have at any time since 1934.

It would be comforting to think that 1980 was an aberration and that the future would allow for improvement in farm income. However, the combination of factors that influence U.S. agriculture are not encouraging. Developments over the next few months may push agriculture onto firmer ground, or over the brink and into a quasi-depression. The implications for farmers, agribusiness companies, financial institutions, and the economy as a whole are serious indeed.

1980 in Retrospect

In January 1980, the farm sector was rocked by a one-two punch from which it has never recovered. President Carter imposed an embargo on grain sales to the Soviet Union, erasing sales of nearly 17 million tonnes of U.S. grain. The embargo has received a great deal more credit for low farm prices and income than it deserved because a reordering of international grain trading partners allowed the U.S. to have a very successful agricultural export year. The second, and probably more important factor contributing to farm problems in 1980, was the realization of the size of the 1979 production. In January of 1980, USDA revised the size of the 1979 corn crop up 353 million bushels and the size of the soybean crop up 32 million bushels from the high November estimates to new record production levels. This excess production weighed heavily on U.S. grain markets.

On the livestock side of the coin, pork output in 1980 reached an all-time high, keeping all livestock prices depressed. Even the drought in the summer of 1980 was unable to prevent a one third decline in net farm income from 1979 levels and an even sharper decline in deflated net farm income to $8 billion.

Will Things Get Better?

Farm income in 1980 was disastrously low, but ominous developments so far in 1981 suggest that it may have been only the beginning of a severe calamity for a very important sector in the U.S. economy. The first half of 1981 has seen U.S. crop prices slowly lose the strength gained from last year's drought. A combination of macroeconomic factors have influenced and reduced both domestic and export grain demand. Weather developments have collaborated to provide a double-edged sword for farm prices and income. On the one hand, relatively warm and dry weather this past winter reduced feed demand and allowed animals in feedlots to gain weight quickly on less grain. This good weather was coupled with high levels of meat production, low livestock prices, and poor livestock production profitability. The result: less grain fed, more ample supplies, and lower prices. On the other hand, weather has been extremely favorable for crop production in 1981, raising the real possibilty that 1981 U.S. grain output could surpass the huge 1979 crop. These factors point to a continuation of the farmer's quandry.

It seems that the only hope in making 1981 a better year for farmers than 1980 would lie in higher livestock prices. Here again, the first half of the year was not encouraging. The liquidation phase of the hog cycle has largely run its course and pork production is running below 1980 levels. But high levels of nonfed cattle slaughter coupled with poor meat demand have choked off a major livestock price recovery.

That is not to say that farm cash receipts will not be higher in 1981 than they were in 1980. Farm cash receipts should be about $11 billion higher than last year, but production expenses may be up even more (Figure 1). The only real differences between 1981 and 1980 net farm income

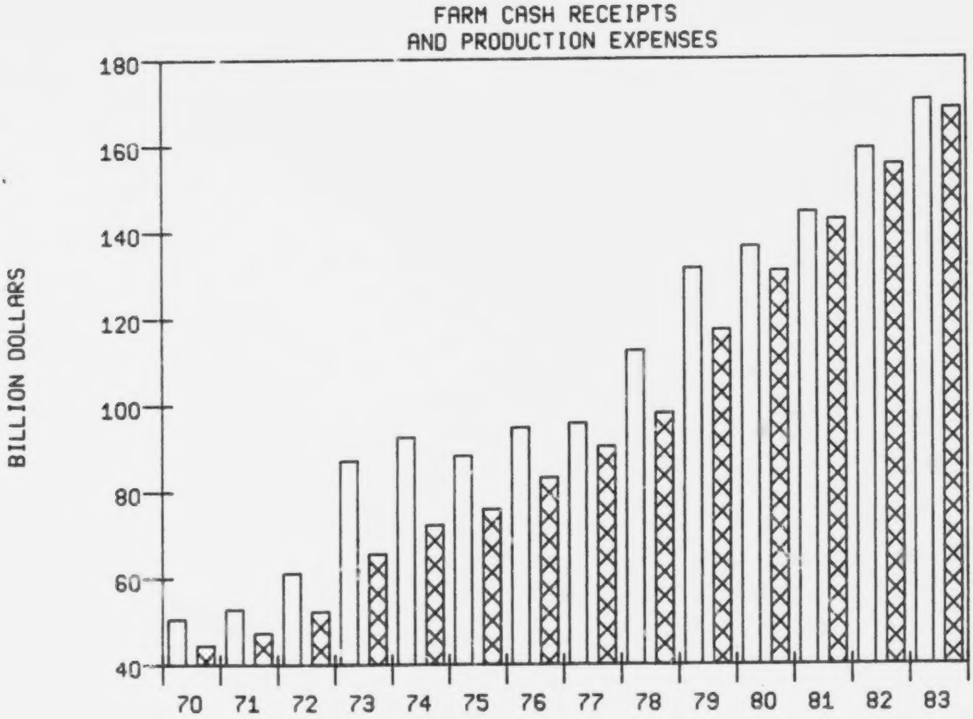

FIGURE I

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may be higher nonmoney income and an improvement in the value of farm inventories. Deflated net farm income in 1981 will again be near $8 billion.

In the last 45 years, inflation-adjusted net farm income has never been below $10 billion for two years in a row. If 1981 is indeed as poor for farmers as it appears it will be, the early 1980s can be characterized as a crisis in U.S. agriculture. But the prospects for 1982 do not provide for a reprieve from the gloomy situation. Certainly the reduction in pork supplies will allow for stronger livestock prices and cash receipts, but burdensome grain supplies and export markets that are reduced by the high value of the dollar will combine to keep crop prices low. The best hope for agricultural commodity prices is that the weather will be less favorable in 1982 and crops will be smaller. Or perhaps President Reagan's economic programs will, indeed, reduce inflation, provide consumers with more spendable income, and rekindle food demand. Without some unexpected developments, 1982 could well be the third consecutive year of deflated net farm income below $10 billion (Figure 2).

Is It Really That Bad?

There are, of course, reasons why net farm income and deflated net farm income are not good measures of the economic and financial conditions of U.S. agriculture. Certainly, the number of farms and the number of people living on farms has declined substantially since 1934, so farm income is divided among fewer people and the 1980 per farm or per capita net farm income was not nearly as low as it was in 1934. Net farm income per farm in 1980 was just over $8,500, compared to just $431 in 1934. Net farm income per person was about $2,700 in 1980, compared to $90 in 1934. Let us hope things never again get as bad for U.S. farmers and farm families as they were in the 1930s. Despite the fact that net farm income per farm in 1980 was a dramatic improvement over the depression years, when this income is adjusted for inflation, we find that 1980 income per farm was the lowest since 1964 and the third lowest in the last 20 years (Figure 3). Farm income per person was also the lowest since 1964, hardly the fulfillment of the American Dream.

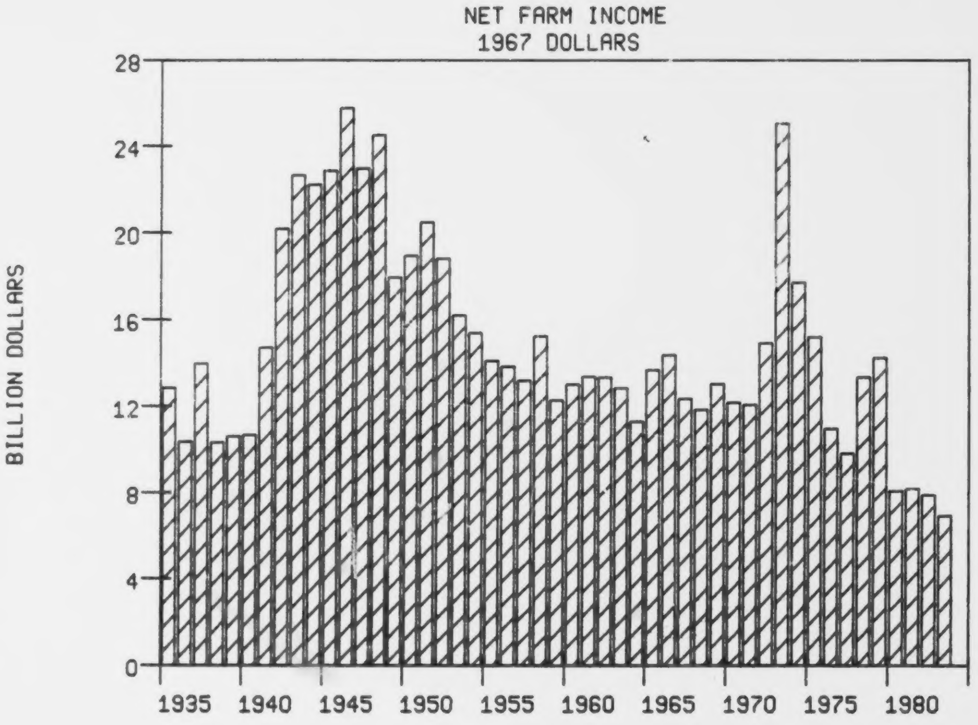

FIGURE 2

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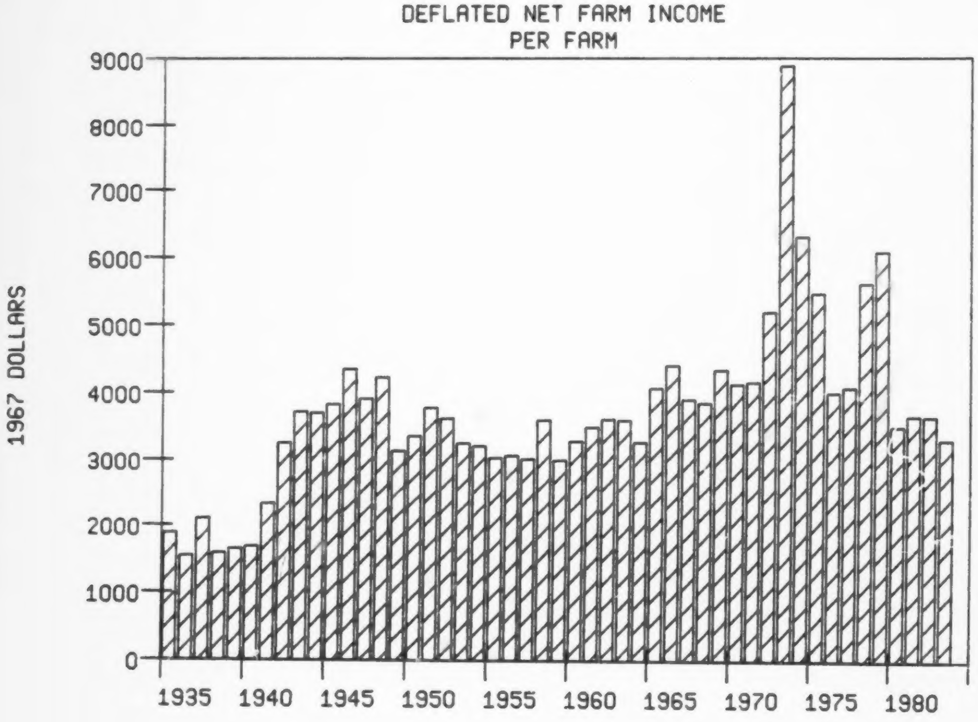

FIGURE 3

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If we assume that net farm income is an inappropriate measure of the farm sector economic well being, another measure might be "spendable income" or returns relative to costs. This component could be defined as farm cash receipts minus production expenses. This measure of economic well being portrays an even more depressing description of the farm sector difficulties. The slow growth in farm cash receipts in 1980 and those expected in 1981 and 1982 are being outstripped by inflation-fed production expenses. To find comparable levels of "spendable income", we must, again, go back in history more than 30 years (Figure 4). And as bad as 1980 was, 1981 and 1982 are expected to be equally dismal.

What Does It All Mean

The farm sector of the U.S. economy is in a crisis, a crisis unlike any we have seen for decades. During the last 30 to 40 years, U.S. agriculture has made dramatic shifts toward capital-intensive production techniques. The higher level of capital inputs makes the current crisis more ominous for farm input suppliers. Over the next year or two, farmers will be forced to dramatically reduce their capital expenditures to preserve a living wage for their families. High-cost capital items will be reduced because of high interest rates and down payment requirements. These negative factors will be partially offset by faster depreciation and tax incentives. Expansion will be more difficult for farmers, and the upward pressure on land prices should moderate somewhat. Farmers' demand for funds will increase, putting additional pressure on the shrinking loanable funds in rural banks and savings and loan institutions. High interest costs and large amounts of borrowed money will reduce farmers' marketing options, putting additional pressure on crop prices. Nitrogen fertilizer consumption will probably remain fairly strong, but other nutrient consumption will probably decline. In short, farmers will be forced to cut production costs wherever possible.

Forecast Risks

In the forecasting business, it is not often that we hope we are wrong, but the implications of this forecast are so ominous for U.S. agriculture

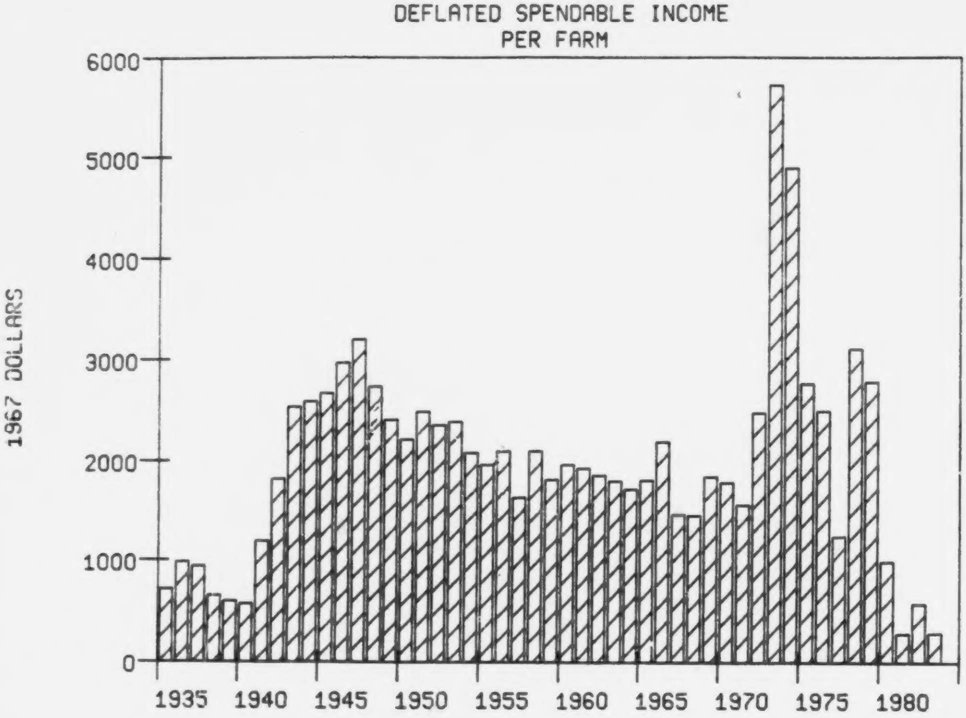
DEFLATED SPENDABLE INCOME
PER FARM
1967 DOLLARS
6000
5000
4000
3000
2000
1000
0
1935
1940
1945
1950
1955
1960
1965
1970
1975
1980

FIGURE 4

and many other sectors of the U.S. economy, I hope a combination of macroeconomic and weather factors render this forecast incorrect. A stronger domestic economy would enhance livestock prices, grain demand and grain prices, but anticipated grain stocks are so large that we need a good dose of export demand. The Soviet Union may provide an outlet for U.S. grains that would brighten U.S. net farm income prospects. World economic growth has been sluggish in the recent past, and there is no solid indication that this will improve. However, improved foreign economic conditions could provide a needed shot in the arm for U.S. agriculture. U.S. agricultural exports are being inhibited by the strong dollar and the underlying cause, high interest rates, is expected to continue for much of 1982. However, interest rates have proven difficult to forecast and could reverse course unexpectedly.

Weather will play an important role in 1982 farm prices. A 1982 crop similar to the one expected in 1981 would assure that the gloom and despair will continue. The rapid increase in farm prices in 1980, when drought hit, demonstrated price sensitivity even in the face of large grain supplies.

In the past, government programs have prevented catastrophic conditions in U.S. agriculture, but new farm programs are designed to encourage production and broaden markets for agricultural products rather than protect farmers. Net farm income in 1981 will not be substantially influenced by governmental policies or actions. How the Administration or Congress will respond, or if they will respond, to the type of situation that has been described remains to be seen. It would be difficult and expensive for the government to substantially alter the prospective agricultural crisis.

Without question, agriculture finds itself in a difficult situation. Competitive markets force farmers to produce as much as possible, but large aggregate production results in poor returns. The effects of current production in a time of slow economic growth and restricted exports is being compounded by fewer hogs and poor cattle-feeding profitability. Unless some unforeseen event rescues farmers in the near future, many will be pushed over the brink and into depression.

Exhibit II
June, 1982

AGRICULTURAL RECOVERY:
The Necessary Ingredients
by Richard Pottorff

Approximately one year ago, we analyzed the evolving financial crisis in U.S. agriculture and pointed out the unprecedented collapse of U.S. net farm income. Although the analysis went on to discuss some of the deficiencies of using net farm income as a comprehensive measure of the financial status of U.S. agriculture, the comparison of today's deflated net farm income to the levels of the Great Depression have created a furor of repudiation especially from Administration officials. The situation in agriculture has continued to deteriorate in the ensuing year and it is appropriate to reexamine the crisis and evaluate its severity.

Relevant Data

The fact that deflated net farm income has fallen to its lowest level since the 1930s is indisputable (Figure 1). The depths that were reached in 1980 and 1981 are unmatched over the last 45 years but 1982 will set a new low. Large grain crops in

Figure 1

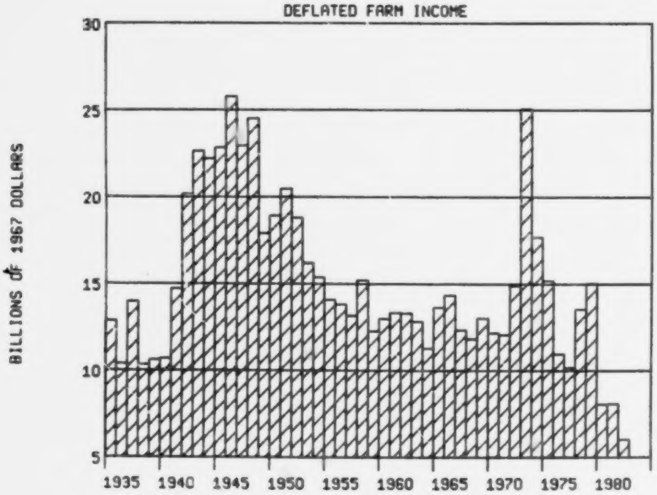

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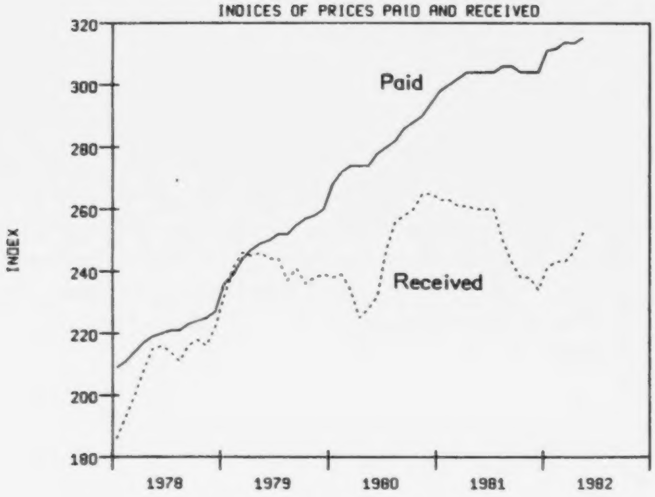
Figure 2



1981 coupled with stagnant demand have resulted in a rapidly deteriorating financial situation. While farm prices for agricultural products have declined during the last year, production expenses have continued their steady advance (Figure 2). The resulting cost-price squeeze has had dramatic repurcussions throughout the agricultural industry.

The Arguments

Using the current level of net farm income as an indication of the relative financial condition of U.S. farmers is disputed from two perspectives. First, there are significantly fewer farms today than there were in the 1930s, therefore the current net income is divided among fewer people, lessening the impact on any individual farm. Secondly, farm wealth or the value of farm assets (primarily real estate) has increased so dramatically that despite cash flow problems, farmers are sitting on a veritable gold mine of equity. There is a strong element of truth in both of these arguments.

Since 1935, the number of farms in the U.S. has declined by about 65%-70%. However, today's farmers are much more highly capitalized and much more sensitive to cash flow fluctuations than their counterparts of the 1930s. Even when we look at farm income on a per farm basis, the picture is extremely bleak (Figure 3). The current individual farm's net income is the lowest since 1941. Although the shrinkage in farm numbers has reduced the impact of the low income levels, the current low levels are the most depressed in four decades.

The growth in farm real estate value has been phenomenal, especially during the last 10 years (Figure 4). This growth in asset value has been accompanied by a nearly corresponding increase in proprietor's equity. The asset base of today's farmer is unquestionably superior to farmers at any time in this century. It is, however, extremely difficult for farmers to capitalize on this improved net worth. Theoretically, farmers could borrow against the equity to finance current operations. However, cash flow has been squeezed to the point where debt service would be difficult if not impossible, especially at today's interest rates. If farmers are unable to borrow against their net worth, their other alternative is the sale of the assets. The current economic environment is not conducive to the sale of farm

Figure 3

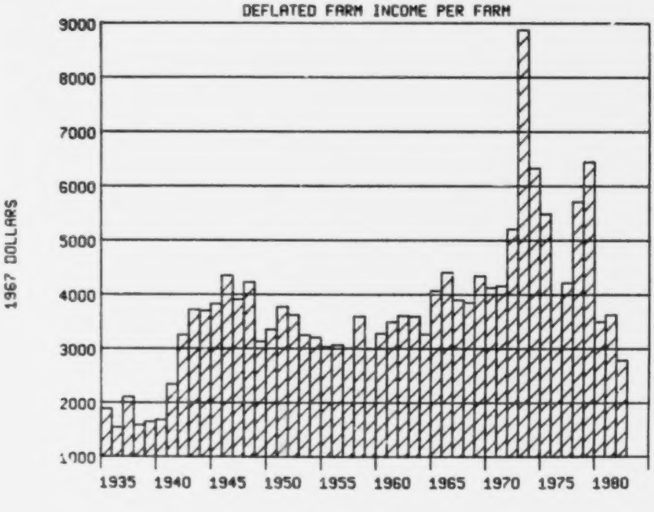


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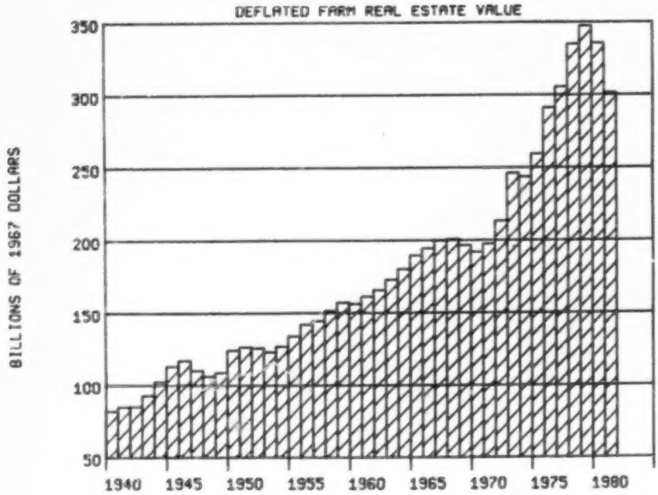
Figure 4



real estate even if farmers were motivated to part with the estates built up over generations. During 1981, farm land values declined in nominal terms, the first such decline since 1953 and only the second decline in over 40 years (Figure 5). Moreover, the magnitude of real decline in the value of farm real estate in 1981 is unprecedented in the last 40 years and nearly twice as large as the next steepest decline. Even when we put farm land values in the context of declining farm numbers, it is apparent that the reduction in farm land values in 1981 is the most severe in many years (Figure 6). With the extremely depressed level of net farm income expected in 1982, a further decline in the value of farm real estate is nearly certain. Although it is clear that farmers have been sitting on a gold mine of appreciating assets, the trend has reversed and it is very difficult for them to capitalize on their assets.

The Conclusion

Despite the arguments to the contrary, agriculture is in a severe financial crisis, perhaps the most severe since the Depression. At no time in the past 40 years has

Figure 5

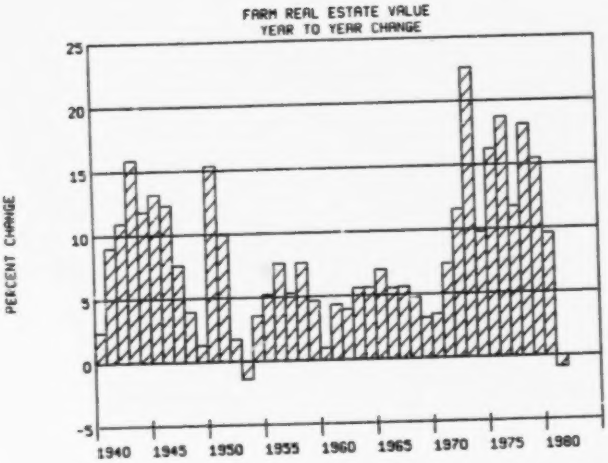
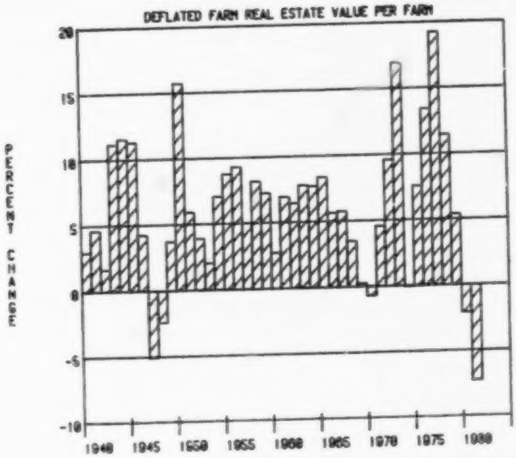


Figure 6



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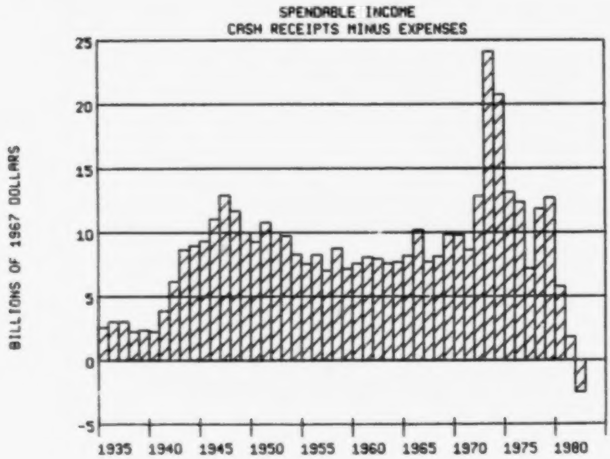
deflated net farm income fallen to the level expected this year. Since the relatively high level of 1979, deflated net farm income has fallen by over 50%. Agricultural prices adjusted for inflation have declined by 30% while deflated production expenses have declined by about 7%. Production expenses as measured by USDA will very likely exceed farm cash receipts in 1982 for the first time in recorded history (Figure 7). This severe constriction of cash flow, combined with declining land prices and high interest rates make it extremely difficult for farmers to capitalize on their relatively high equity. If these conditions do not constitute a financial crisis, what does?

What Can Be Done

The current financial crisis is the result of a combination of several supply, demand and political factors that have accumulated in recent years. For agriculture to return to a more profitable condition, there must be a significant change in supply, an improvement in demand, government policies aimed at bailing out agriculture or changing supply or demand, or some combination of these factors.

A government bailout for agriculture in the current high deficit economic environment appears unlikely. The farm crisis legislation was defeated in Congress

Figure 7



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but would have faced almost certain presidential veto. Supply reduction programs for the 1982 crop have been implemented but will probably be ineffective in substantially reducing supply. The programs could influence grain prices in 1983 if grain reserve utilization is high. However, if 30%-40% participation rates are assumed for corn and wheat and weather is "normal", the resulting supply reduction is insufficient for price or economic recovery in 1983.

Planting of the 1982 crop is essentially complete. The only way supply can be substantially reduced in the short term is through unfavorable weather. Big crops in 1979 and 1981 are largely responsible for the current agricultural quandry and similar crop production levels in 1982 would be catastrophic, especially in light of the fact that a large portion of the production would be ineligible for any type of price support program.

Economic difficulties in the U.S. and overseas have wreaked havoc on U.S. grain demand and prices. High U.S. interest rates and the accompanying strength of the dollar relative to other currencies in combination with the near financial collapse of Eastern Bloc countries have devastated U.S. corn markets in the current crop year. Slow sales to Japan and nearly non-existent sales to Mexico have also contributed to a 15% decline in year-over-year corn exports so far this crop year (Table I). The bright spot in the corn market has been the increase in sales to the

Table I

U.S. Corn Exports
(Thousand Tonnes)

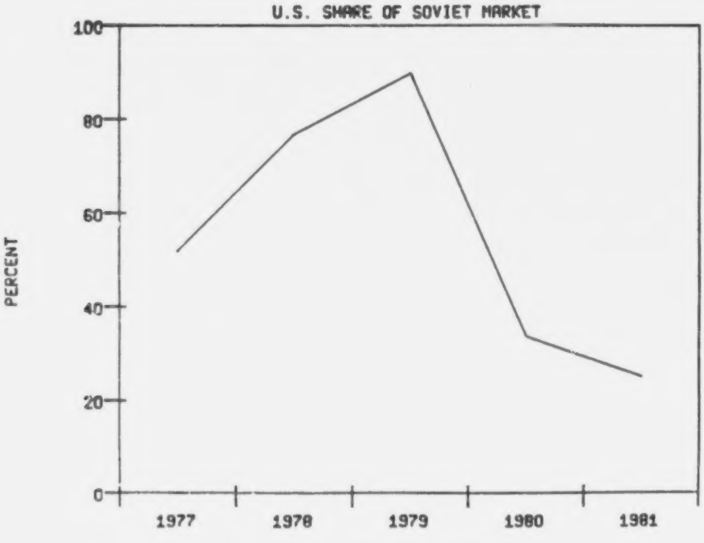
			(June 3)	
	1976-1977	1980-1981	Commitments 1981-1982	Commitments 1980-1981
Poland	1,157	2,628	312	2,420
Romania	99	1,835	280	1,823
Mexico	1,537	3,678	477	3,606
Bulgaria	0	860	443	843
USSR	3,052	5,738	7,746	5,000
Japan	8,092	14,394	10,612	14,600

Soviet Union and even that is a major disappointment when compared to what it might have been if the 1980 grain embargo had not been imposed (Figure 8). Wheat and soybean exports have continued strong but continued production expansion by our major competitors could substantially reduce the rate of growth. Strong growth in international grain trade will be very sensitive to the availability of credit. Commercial banks are understandably concerned about the ability of developing countries and centrally planned countries to repay loans. Continued expansion of U.S. agricultural exports will be inhibited unless either commercial or government credit is available.

What Lies Ahead

The current agricultural crisis is the result of a combination of large production and relatively weak demand. Sustained recovery is dependent upon more than a return to a favorable supply and demand balance. Throughout the 1950s and 1960s U.S. agriculture wrestled with a chronic overproduction problem. Acreage was restricted by a handful of government programs, but supplies continued to accumulate. Unfortunately, the current environment may be very similar to the 50s and 60s. Acreage reduction programs will not be sufficient to prevent chronic

Figure 8



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oversupply of U.S. grains unless demand improves. Supply reduction can be extremely important to short term improvement in farm prices and income but improved demand is essential to profitable agriculture in the years ahead.

Demand for U.S. agricultural commodities has been reduced by a combination of factors. The widespread economic recession has reduced demand for meat, livestock profitability and therefore feed grain imports. Economic recovery in most developed countries is expected later this year and this should result in improved demand.

Sluggish economic performance in the U.S. has been exacerbated by high interest rates. In addition to the increased expenses these interest rates have had on U.S. agriculture, they have contributed to weak domestic and international demand for agricultural products. During the last two years, there has been a tremendous increase in the value of the dollar in international markets. This appreciation has more than offset the decline in farm prices and the effective export price has increased. There are few, if any, indications that U.S. interest rates will decline in the near future; however, before robust export growth can resume, interest rates must fall.

Hard financial times have befallen the key growth markets for U.S. agricultural exports. Important importers in Eastern Europe are on the very brink of financial collapse. Near bankruptcy in combination with U.S. economic sanctions have removed Poland from U.S. grain markets. Other Eastern European countries are finding it increasingly difficult to obtain credit due to their own financial difficulties. Mexico, Brazil and other developing nations face stifling debt loads and an increasingly hostile credit environment. Even the Soviet Union has found it necessary to obtain credit to finance agricultural imports. Now more than ever, the available credit, both commercial and government subsidized, is of critical importance to U.S. agriculture. Efforts to improve foreign access to U.S. grain is essential and can greatly improve U.S. agricultural prospects in the years ahead.

A coordinated policy effort that simultaneously attacks the oversupply and stagnant demand problems is needed. The emphasis must be on facilitating demand growth if economic recovery it to persist over the second half of the decade. Worldwide growth in food needs can only be converted into exports under a favorable economic environment. Government and private sector efforts must be aimed at improving this environment.